

# **Office of the Under Secretary of Defense (Comptroller) (OUSD(C))**

---



---

## **How to Prepare for an Audit of Inventory and Operating Materials and Supplies (OM&S) Course**

**Student Guide**

**Version 1.0**

**September 2005**

Prepared by:  
Science Applications International Corporation  
Southbridge Hotel and Conference Center  
14 Mechanic Street, Room C-3100  
Southbridge, MA 01550-2570



Products or brand names mentioned in the text of this guide  
are trademarks or registered trademarks of their respective holders

<b>Course Title</b>	<b>How to Prepare for an Audit of Inventory and Operating Materials and Supplies (OM&amp;S)</b>	
---------------------	---	--

<b>Course Identification</b>	Course Code: OSD-OM&S	Course Type: F
------------------------------	-----------------------	----------------

<b>Level and Type</b>	Introductory Functional Course	
-----------------------	--------------------------------	--

<b>Course Length</b>	8 hours	8 CPE credit hours
----------------------	---------	--------------------

<b>Field of Study</b>	Accounting and Audit, Government Accounting and Reporting – Specialized.	
-----------------------	--	--

<b>Course Description</b>	<p>The How to Prepare for an Audit of Inventory and Operating Materials and Supplies (OM&amp;S) course, Version 1.0, is an eight-hour, introductory functional course designed to help students identify and analyze components of inventory and OM&amp;S on the DoD financial statements; discuss how to document inventory; discuss how to document OM&amp;S transactions; and describe tools that help achieve audit compliance. The course is presented in four lessons.</p>	
---------------------------	--	--

<b>Learning Objectives</b>	<p>Upon completion of this course, the student will be able to:</p> <ul style="list-style-type: none"> <li>• analyze components of inventory and related property on the DoD financial statements</li> <li>• discuss how to document inventory and related property (Note 9)</li> <li>• discuss how to document OM&amp;S transactions</li> <li>• describe tools that help achieve audit compliance.</li> </ul>	
----------------------------	--	--

<b>Presentation Mode</b>	The primary methods of instruction are conference, questions, discussion, and a final examination.	
--------------------------	--	--

**Who Should Attend**

The audience for this course includes all individuals who require an understanding of the complexities surrounding inventory and OM&S in relation to the financial statements audits. It will be composed of civilian and military personnel of various grades and ranks in positions of Financial Management, Professional and Technical Support, Accounting, Auditing, and Budgeting.

---

**Prerequisites**

There are no prerequisites for this course.

---

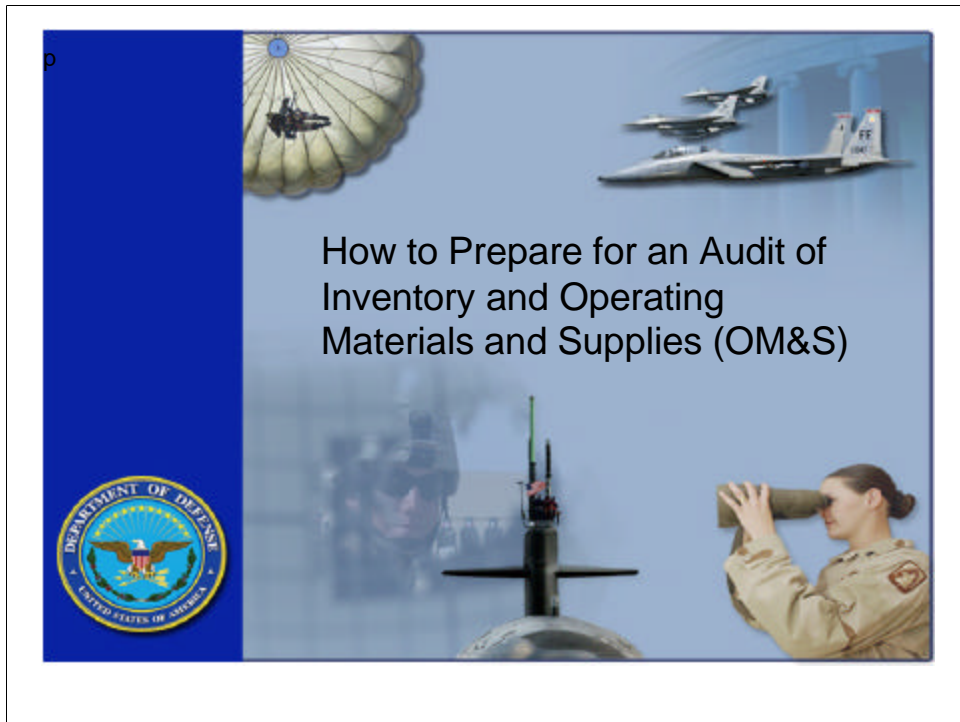


## Table of Contents

<b>Course Description .....</b>	<b>CD-1</b>
<b>Table of Contents .....</b>	<b>i</b>
<b>Course Introduction .....</b>	<b>CI-1</b>
<b>Lesson 1 – Identifying Critical Components of Inventory and OM&amp;S.....</b>	<b>L1-1</b>
Federal Accounting Standards Advisory Board.....	L1-4
Categories of Inventory and OM&S .....	L1-16
Legal and Regulatory Requirements .....	L1-20
Proof of Statements and Checklist Integrity.....	L1-43
Displaying/Disclosing on Financial Statements .....	L1-48
DoD Material Deficiencies.....	L1-52
Property in the Possession of Contractors.....	L1-57
Lesson Summary.....	L1-58
References.....	L1-60
<b>Lesson 2 – Documenting Inventory .....</b>	<b>L2-1</b>
Proper Source Documentation.....	L2-4
Inventory Audit Trails .....	L2-28
File Maintenance.....	L2-34
Audit Folders.....	L2-40
Methods of Inventory Valuations .....	L2-42
Lesson Summary.....	L2-52
References.....	L2-53
<b>Lesson 3 – Documenting Transactions for OM&amp;S.....</b>	<b>L3-1</b>
Proper Source Documentation.....	L3-4
OM&S Audit Trails .....	L3-26
File Maintenance.....	L3-32
Audit Folders.....	L3-38
Methods of OM&S Valuations.....	L3-40
Differences between Inventory and OM&S .....	L3-50
Lesson Summary.....	L3-51
References.....	L3-52
<b>Lesson 4 – Tools to Prepare for Inventory and OM&amp;S .....</b>	<b>L4-1</b>
Role and Responsibilities .....	L4-4
Financial Improvement Initiative Business Rules.....	L4-18
Discovery and Correction.....	L4-19

Validation .....	L4-27
Assertion .....	L4-34
Assessment .....	L4-42
Audit .....	L4-50
Reporting.....	L4-57
Lesson Summary.....	L4-59
References.....	L4-60
 <b>End-of-Course Review.....</b>	 <b>R-1</b>
 <b>Appendix A – Glossary .....</b>	 <b>A-1</b>
 <b>Appendix B – Sample Source Documentation.....</b>	 <b>B-1</b>
 <b>Appendix C – Steps for Valuing Inventory and OM&amp;S.....</b>	 <b>C-1</b>
 <b>Appendix D – Memorandum of Approved Valuation Methods .....</b>	 <b>D-1</b>
 <b>Appendix E – DoDFMR, Volume 6B, Chapter 14.....</b>	 <b>E-1</b>
 <b>Appendix F – Financial Improvement Initiative Checklist.....</b>	 <b>F-1</b>

---



Good morning and welcome to the How to Prepare for an Audit of Inventory and Operating Materials and Supplies (OM&S) course.

This course is presented in four lessons designed to help you analyze components of inventory and related property on DoD financial statements and describe how to document Inventory and Related Property, Note 9 on the financial statements.

The course will also help you understand how to document OM&S transactions and describes tools that help to achieve audit compliance.

But, before we get into more in-depth information, let's discuss some important points.



## Course Introduction



- **Meet your instructor**
- **Housekeeping issues**
- **Other**

Version 1.0


How to Prepare for an Audit of Inventory and OM&S

CI-2

Since we are going to be together all day, I would like to start by introducing myself.

I am \_\_\_\_\_ and .....(name, background, and what makes you uniquely qualified to instruct this course).

Now let's talk about a few general housekeeping topics.

				
				
Starting Time	Coffee Breaks	Restrooms	Cell Phones	
				
Lunch Break	Phone Calls	Nondisclosure	Exercise/Exam	
<hr/> Version 1.0                      How to Prepare for an Audit of Inventory and OM&S                      CI-3				



Restrooms are located at \_\_\_\_\_, and break facilities, coffee, and snacks are located at \_\_\_\_\_. Drinks and snacks are not allowed in the classroom.

Please silence all pagers and cell phones, and refrain from their use while in the classroom. If you must stay in contact, please leave the room to answer a silent page. Telephones for your use are located at \_\_\_\_\_.



During this discussion, you will be provided with examples of financial transactions and other proprietary information either from the instruction or from your classmates. You must assume that this information is not for use by the general public, nor is it to be published or disseminated to third parties.








The format for this class is conference/lecture and will include questions and discussion. There are no practice exercises, but there is a final examination. You may use any materials provided in the course or discussion to complete the examination.









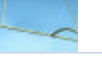





Let's take a look at these materials.

## Icon Definitions

Course/Lesson Flow	
	<b>Logistics</b>
	<b>Starting Time</b>
	<b>Objectives</b>
	<b>Summary</b>
	<b>Questions</b>
	<b>Exercise/ Exam</b>
	<b>References</b>

Course Topics	
	<b>Key Point</b>
	<b>Definition</b>
	<b>Background</b>
	<b>Detail</b>
	<b>Law/ Standard</b>
	<b>Example</b>
	<b>Report</b>
	<b>Steps</b>
	<b>Goal</b>
	<b>Quote</b>
	<b>Tools</b>
	<b>Information</b>
	<b>Best Practice</b>
	<b>Issues/ Resolutions</b>

Version 1.0
How to Prepare for an Audit of Inventory and OM&S
CI-4

Notice that each page is formatted with a header. The left corner of each header contains an icon that provides a visual key to the contents of the page. For example, this page displays the Logistics icon.

The main icons describe course and lesson objectives and introduce key topics. Additional icons within each topic represent definitions, background information, and issues and resolutions. Best Practice and Lessons Learned icons will show examples of successful practices implemented by the government or industry. At the conclusion of each lesson, icons will represent the lesson summary, questions and answers, final examination, and links to references available for more information.

Please feel free to take notes on your student materials, and to write down any questions that you have that we may not have had time to address during the discussion of a particular topic. Your questions are very important to us, but we may not have the answer or sufficient time available in the classroom and may have to go to an outside source for an answer.

Now let's examine the course agenda.



Time	Title
8:00 - 8:10	Introduction
8:10 - 10:30	Lesson 1, Identifying Critical Components of Inventory and OM&S
10:30 - 12:00	Lesson 2, Documenting Inventory
12:00 - 1:00	Lunch
1:00 - 1:40	Lesson 3, Documenting Transactions for OM&S
1:40 - 3:30	Lesson 4, Tools to Prepare for Inventory and Related Property
3:30 - 3:40	End-of-Course Review
3:40 - 4:20	Final Examination and Course Critique
4:20 - 5:00	Course Critique

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

CI-5

This is our road map for the day. Class starts promptly at 8:00 a.m. and will break for ten minutes each hour. Lunch is scheduled from 12:00 to 1:00 and the course ends at 5:00 p.m.

In this course, there are four lessons, an end-of-course review, and a final examination. Lessons 1 and 2 will be completed before lunch, and Lessons 3 and 4, after lunch.

Finally, you will complete an end-of-course critique and the instructor will distribute the Continuing Professional Education (CPE) certificates.

Let's discuss the purpose and objectives for this course.



**This course examines how to prepare for an audit of inventory and OM&S, with the focus on documentation and the tools used to achieve compliance.**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

CI-6

This course is designed to help you understand how your daily processes/actions in inventory and OM&S contribute to financial statement audits, and provide the required supporting documentation to achieve audit compliance.

It is important for you to understand the procedures for proper documentation of transactions in inventory and OM&S to assist the Department in achieving an unqualified audit opinion on the annual financial statements.

Let's look at the course objectives.





**Upon successful completion of this course, you will be able to:**

- **Analyze components of inventory and related property on the Department of Defense (DoD) financial statements**
- **Discuss how to document Inventory and Related Property (Note 9)**
- **Discuss how to document OM&S transactions**
- **Describe tools that help achieve audit compliance**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

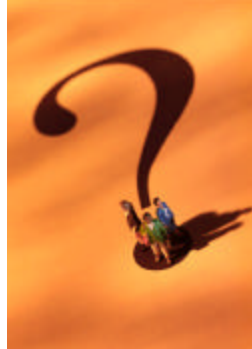
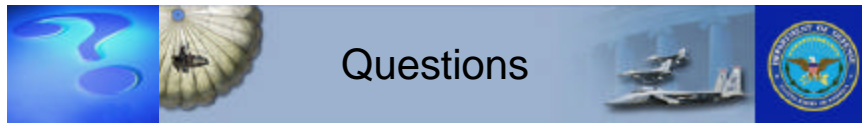
CI-7

This course will help you understand how daily transactions in inventory and OM&S can assist the Department of Defense (DoD) in achieving a clean or unqualified audit.

This course will help you analyze components of inventory and related property on the DoD financial statements and understand the legal and regulatory requirements, including the Statement of Federal Financial Accounting Standards (SFFAS), Number 3.

It will describe the importance of how to document inventory and OM&S transactions, how to value inventory and OM&S, and explain the requirements for supporting documentation and the reporting of government property in the possession of contractors.

This course will also discuss the importance of inventory information on Note 9 on the Financial Statements, Inventory and Related Property, and describe the use of tools, such as the Financial Improvement Initiative Business Rules, in preparation for audits of inventory and related property.

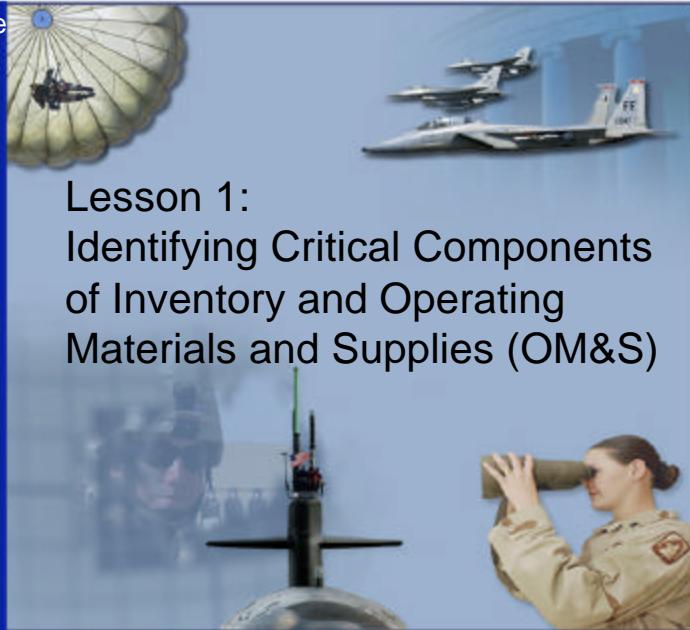


Before we proceed with Lesson 1, Identifying Critical Components of Inventory and OM&S, are there any questions?

How to Prepare  
for an Audit of  
Inventory and  
OM&S

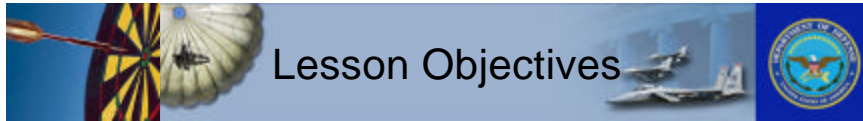


## Lesson 1: Identifying Critical Components of Inventory and Operating Materials and Supplies (OM&S)



In Lesson 1, Identifying Critical Components of Inventory and Operating Materials and Supplies (OM&S), we explore the critical components of inventory and related property from several points of view to help you become better prepared for an audit of inventory and OM&S.

Let's discuss the lesson objectives.



**Upon successful completion of this lesson, you will be able to:**

- **Describe the legal and regulatory requirements for supporting documentation**
- **Explain the requirements of the Statement of Federal Financial Accounting Standards (SFFAS), Number (No.) 3**
- **Illustrate the integrity of the annual financial statements**
- **Explain how to report government material in the possession of contractors**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

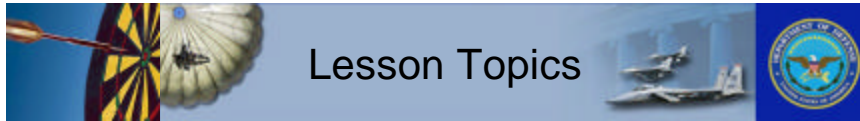
L1-2

This lesson examines the legal and regulatory requirements for supporting documentation related to both Inventory and OM&S.

We examine the requirements of Statement of Federal Financial Accounting Standards (SFFAS), Number (No.) 3, as related to Inventory and OM&S.

This lesson also discusses the financial statements with emphasis on the Balance Sheet and related notes and we look at how to report government material in the possession of contractors.

Let's discuss the lesson topics.



**This lesson contains the following topics:**

- **Federal Accounting Standards Advisory Board**
- **Categories of Inventory and OM&S**
- **Legal and Regulatory Requirements**
- **Proof of Statements and Checklist Integrity**
- **Displaying/Disclosing on Financial Statements**
- **DoD Material Deficiencies**
- **Property in the Possession of Contractors**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L1-3

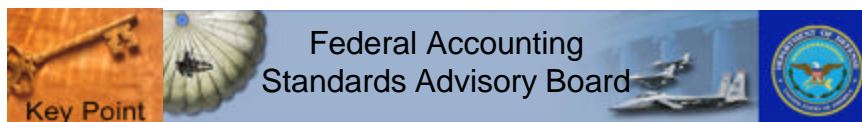
In this lesson, we discuss the standards the Department must abide by when accounting for inventory and OM&S. We examine the different categories of inventory and OM&S.

We discuss the Departmental regulations, as well as applicable legal requirements relating to inventory and OM&S.

A discussion of proof of statements, that is, comparing the financial statements with the related notes, and checklist integrity is contained in this lesson.

Finally, we detail some material weaknesses for inventory, OM&S, and with government material in the possession of contractors.

Let's learn about the Federal Accounting Standards Advisory Board (FASAB).



### **Federal Accounting Standards Advisory Board (FASAB)**

**Federal accounting standards are based on the needs of the users of federal financial information. The four FASAB Statements of Federal Financial Accounting Concepts (SFFAC) are:**

- **Objectives of Federal Financial Reporting**
- **Entity and Display**
- **Management's Discussion and Analysis – Concepts**
- **Intended Target Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States (U.S.) Government**

**FASAB Standards and Concepts: <http://www.fasab.gov/>**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

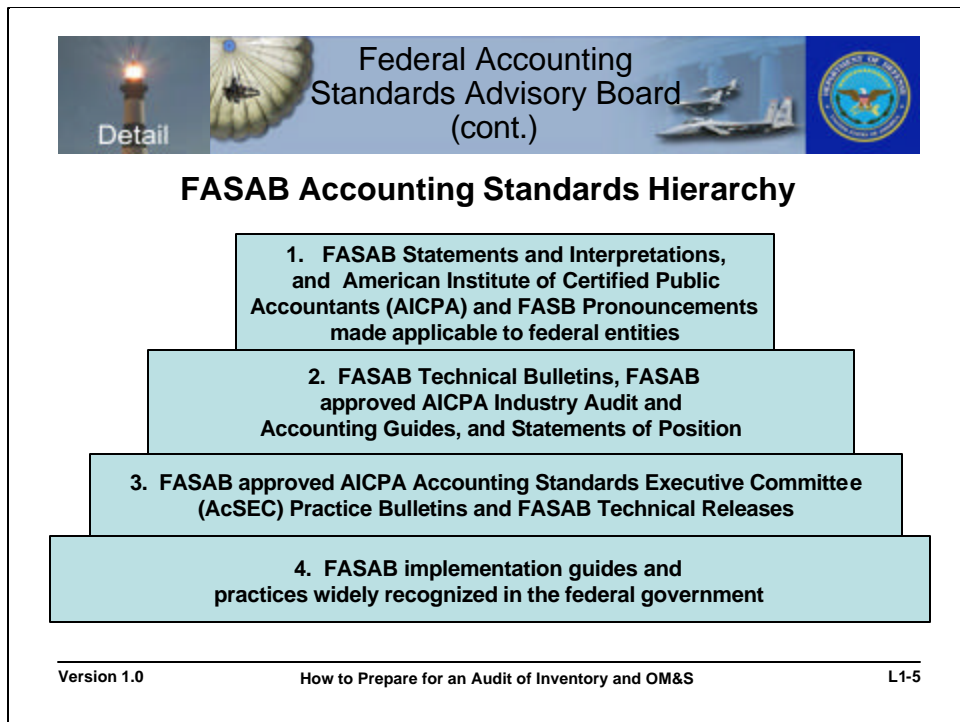
L1-4

The mission of the FASAB is to promulgate federal accounting standards based on the needs of users of federal financial information. Federal government entities must follow federal accounting and financial reporting standards in fulfilling the government's duty to be publicly accountable.

There are four FASAB Statements of Federal Financial Accounting Concepts (SFFAC) and 25 SFFAS issued by the FASAB. Statements on concepts are more general than statements on standards and do not contain specific recommendations that are authoritative requirements for federal agencies and auditors. The standards are intended to be definitive accounting and reporting guidance to federal agencies. The four concepts are: Objectives of Federal Financial Reporting, Entity and Display, Management's Discussion and Analysis - Concepts, and Intended Target Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States (U.S.) Government.

The Entity and Display concept is intended to provide guidance as to what would be encompassed by a federal government entity's financial report. It is useful to the Office of Management and Budget (OMB), when the OMB specifies what entity should prepare financial statements and the form and content of those statements pursuant to authority assigned in the Chief Financial Officers (CFO) Act.

Let's talk about the FASAB accounting standards hierarchy.



As stated earlier, the FASAB promulgates accounting standards for U.S. government reporting entities. This hierarchy lists the priority sequence of sources that an entity should look to for accounting and reporting guidance.

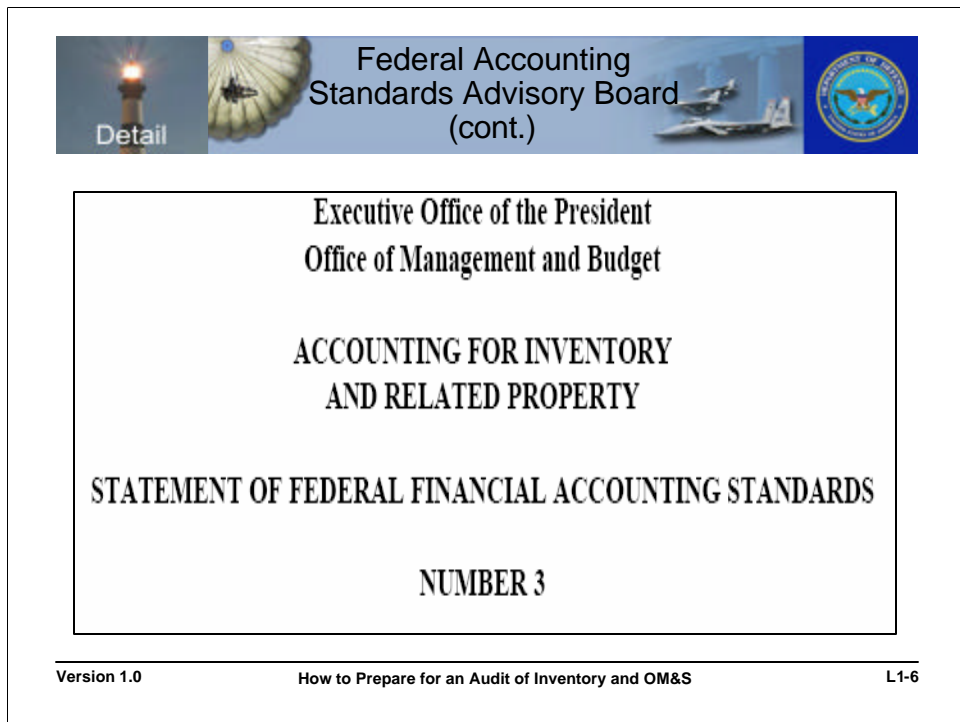
The first category of federal Generally Accepted Accounting Principles (GAAP) is FASAB Statements and Interpretations, and the American Institute of Certified Public Accountants (AICPA) and FASAB Pronouncements specifically made applicable to federal governmental entities by FASAB statements or interpretations.

The next category consists of FASAB Technical Bulletins and, if specifically made applicable to federal governmental entities by the AICPA and cleared by the FASAB, AICPA Industry Audit and Accounting Guides and AICPA Statements of Position.

The third category consists of AICPA Accounting Standards Executive Committee (AcSEC) Practice Bulletins specifically made applicable to federal governmental entities and cleared by the FASAB, as well as Technical Releases of the Accounting and Auditing Policy Committee of the FASAB.

Finally, the last category includes implementation guides published by the FASAB staff, as well as practices that are widely recognized and prevalent in the federal government.

Let's discuss SFFAS No. 3.



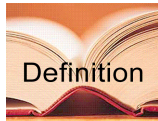
SFFAS No. 3 is the third statement of recommended accounting standards issued by the FASAB. The standards presented in this document apply to several types of tangible property, other than long-term fixed assets, held by federal government agencies. The standards covered are inventory, OM&S, stockpile materials, seized and forfeited property, foreclosed property, and goods held under price support and stabilization programs.

SFFAS No. 3 defines inventory as tangible personal property that is 1) held for sale, 2) in the process of production for sale, or 3) to be used in the provision of services for a fee. This is compared to their definition of OM&S which is defined as tangible personal property that is consumed in the normal course of operations. You will learn the importance of differentiating these two groups as we go through this course.

We discuss the requirements of this document when we talk about Note 9, Inventory and Related Property.

Let's talk about the general categories of Note 9.





## Federal Accounting Standards Advisory Board (cont.)



**Note 9 encompasses these distinct categories:**

- **Note 9A, Inventory – Net**
- **Note 9B, Operating, Material, and Supplies – Net**
- **Note 9C, Stockpile Materials – Net**
- **Note 9D, Seized Property**
- **Note 9E, Forfeited Property – Net**
- **Note 9F, Goods Held Under Price Support and Stabilization Programs – Net**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

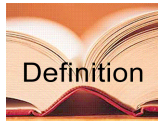
L1-7

Think of Note 9, Inventory and Related Property – Net as a summary of the total amounts of inventories and other related property reported in any subsequent Notes 9A through 9F. These categories are found in the Department of Defense Financial Management Regulation (DoDFMR), Volume 6B, Chapter 10, and are derived from SFFAS No. 3. SFFAS No. 3 defines inventory and related property as:

- Inventory
- Operating Materials and Supplies
- Stockpile Materials
- Seized and Forfeited Property
- Foreclosed Property
- Goods Held Under Price Support and Stabilization Programs.

In this course, we discuss inventory as reflected in the two financial statement notes: Note 9A, Inventory – Net, and Note 9B, OM&S – Net, in detail. We also briefly mention Note 9C, Stockpile Materials – Net.

Let's begin by understanding what inventory is.



### What is inventory?

- **Tangible personal property**
- **Titled to the government**
- **On hand or in transit**
- **Held for sale, future sale, repair, or pending transfer to disposal**

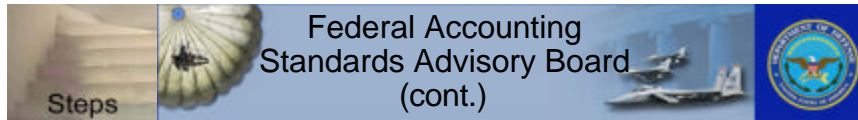
In general, inventory is tangible personal property, titled to the government, that is on hand or in transit (for example, accepted at origin from a vendor, or moving between DoD activities) and is held for sale, future sale, repair, or pending transfer to disposal.

Inventory excludes some assets held for sale such as stockpile materials, seized and forfeited property, foreclosed property and goods held under price support and stabilization programs. These items may be sold. However, the purpose of acquiring them is not to provide a product or service for a fee.

SFFAS No. 3 describes four general classifications of inventory: Inventory Held for Sale; Inventory Held for Future Sale; Excess, Obsolete, and Beyond Repair Inventory; and Inventory Held for Repair. Additionally, the DoDFMR requires reporting on work-in-process, raw materials, and finished goods, which are then transferred to Held for Sale. Inventory in-transit may be found in any of categories of inventory just described, but may not be shown separately on the financial statements.

The inventory is recognized in Note 9A when the title passes to the purchasing entity or when the goods are delivered to the purchased entity.

Let's look at some inventory requirements.



## **How do we value inventory and related property?**

- **Historical Cost**
  - **First-in, First-out (FIFO)**
  - **Weighted Average**
  - **Moving Average Cost (MAC)**
- **Latest Acquisition Cost (LAC)**
  - **Last Invoice Cost**
  - **Applies to all like units**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

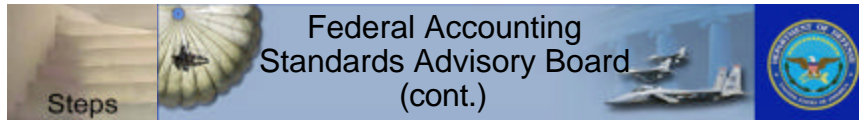
L1-9

The SFFAS No. 3 establishes two valuation methods for inventory - Historical Cost or Latest Acquisition Cost (LAC). Historical Cost includes all appropriate purchase, transportation, and production costs incurred to bring the items to their current condition and location. Three methods of arriving at Historical Cost are:

- **First-in, First-out (FIFO)** – This method assumes that the first unit making its way into inventory is the first sold.
- **Weighted Average** – This method is quite straightforward, since it takes the weighted average of all units available for sale during the accounting period and then uses the average cost to determine the value of cost-of-goods sold and ending inventory.
- **Moving Average Cost (MAC)** – This is an inventory costing method in which a weighted average cost per unit is recomputed after every purchase. Please note this is the prescribed method of inventory valuation within the Department and is discussed further later in the course.

The LAC is calculated to include all amounts, except interest, paid to a vendor to acquire an item. The LAC method provides that the last invoice price be applied to all like units held. You can see this may provide an inventory valuation that is significantly higher (given that prices generally rise over time) than that provided by the MAC method of valuation.

Let's look some other methods of valuation.



**Other methods used to determine the value of inventory and related property are:**

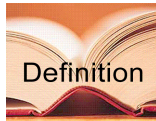
- **Net Realizable Value (NRV)**
- **Standard Price (SP)**
- **Actual Cost (AC)**

The Net Realizable Value (NRV) is used for excess inventory. The NRV is the difference between the carrying amount of the inventory before identification as excess, obsolete, or unserviceable. Its expected net realizable value is recognized as a loss (or gain) and is either separately reported or disclosed. Simply put, the NRV is the fair market value of the item, less the cost to sell or dispose of the item.

The Standard Price (SP) includes cost recovery factors (commonly termed surcharges) to recover operating costs and anticipated price inflation changes. As a rule, the value changes only once per year and is in effect as of the first day of the Fiscal Year (FY).

The Actual Cost (AC) is the specific dollar amount paid for an item.

Let's turn our attention to the categories of OM&S.



## Federal Accounting Standards Advisory Board (cont.)



### **What is OM&S?**

- **Tangible personal property to be consumed in normal operations**

### **What isn't OM&S?**

- **Goods acquired for constructing real property**
- **Stockpile materials**
- **Inventory**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L1-11

From the definition shown here, notice that OM&S are those items used to conduct normal operations. They are consumed in the conduct of operations at every installation and consist of such items as pens and paper. OM&S is not acquired for construction of real property.

For example, although cement might be consumed in normal operations, and it might also be acquired for construction of real property, their individual purposes differ and therefore determine whether the purchase is OM&S. OM&S also is not the same as stockpile materials nor inventory.

OM&S reported in Note 9B is shown in three categories: Held for Use; Held for Repair; and Excess, Obsolete, and Unserviceable.

Let's examine each of these categories.

### **OM&S Category: Held for Use**

- **Maintained in a logistics functional area**
- **Recorded at historical cost**
- **Material is in issuable condition**
- **Reported as assets**

This OM&S category includes most logistics functional area material in consumable condition.

The category, OM&S Held for Use, is valued at Historical Cost. This includes all appropriate purchases and production costs incurred to bring the items to their current condition and location.

Let's continue with the OM&S category, Held for Repair.

### **OM&S Category: Held for Repair**

- **Not in issuable condition (but not beyond economic repair)**
- **Repaired at a depot or field level area**
- **Recorded at historical cost less estimated repair cost**

The OM&S category, Held for Repair, includes inventory items that are not in issuable condition (but not beyond economic repair) and are awaiting repair before they are eligible for reissue. A reparable is an item subject to economical repair and for which the repair (at either the depot or field level) is considered in satisfying computed requirements at any inventory level.

A depot level reparable item is one that is designated for repair at the depot level or that is designated for repair below the depot level, but if repair cannot be accomplished at that level, it will have its serviceable carcass either forwarded to the depot for repair or condemnation, or reported to its Inventory Control Point (ICP) for disposition.

A field level reparable item is one that is normally repaired below the depot level of maintenance and for which condemnation authority can be exercised below the depot level of maintenance.

Held for Repair items are recorded at historical cost less the estimated cost to repair the item.

Let's continue with the OM&S category, Excess, Obsolete, and Unserviceable.

**OM&S Category: Excess, Obsolete, and Unserviceable**

- **Valued at expected NRV**
- **Excess items exceed amount on hand that can be used**
- **Obsolete items are no longer needed**
- **Unserviceable operating materials and supplies are items that are physically damaged and more economical to dispose of than to repair**

Excess, obsolete, and unserviceable OM&S are valued at expected NRV.

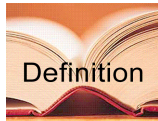
Excess OM&S exceed the amount on hand that can be used within one year.

Obsolete OM&S are no longer needed due to changes in technology, laws, customs, or operations.

The DoD refers to unserviceable OM&S as broken, but can be fixed. In FASAB No. 3, unserviceable means condemned.

Let's continue with a definition of stockpile materials and Note 9C.





## Federal Accounting Standards Advisory Board (cont.)



### **What are stockpile materials?**

- **Held for Sale**
- **Held in Reserve for Future Sale**
- **Not held with the intent of selling**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L1-15

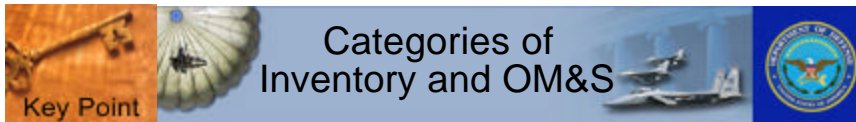
Note 9C reflects two categories of stockpile materials; those Held for Sale and those Held in Reserve for Future Sale. Stockpile materials are strategic and critical materials held due to statutory requirements for use in national Defense, conservation or national emergencies. They are not held with the intent of selling in the ordinary course of business.

The following items are specifically excluded from stockpile materials:

- items that are held by an agency for sale for use in normal operations
- items that are held for use in the event of an agency's operating emergency or contingency
- materials acquired to support market prices (that is, commodities specifically acquired, held, sold, or otherwise disposed of to satisfy or help satisfy economic goals).

Within the Department, the Defense National Stockpile Center (DNSC) is the agency primarily concerned with stockpile materials.

Now that we have discussed the categories of inventory and related property authorized by SFFAS No. 3, let's examine two of those more closely.



**Inventory and OM&S found in the financial statements notes:**

- **Note 9A, Inventory – Net**
- **Note 9B, Operating, Material, and Supplies – Net**

**Source: DoDFMR, Volume 6B, Chapter 10**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L1-16

As we previously noted, the DoDFMR, Volume 6B, Chapter 10, provides an analysis of Note 9 from the financial statements. We saw the DoDFMR allowed for Notes 9A through 9F; however, we are concerned with two of these categories as reflected in the financial statement notes:

- 9A – Inventory, Net
- 9B – OM&S, Net.

Notes are integral to the financial statements, as they explain or expand on the financial statements. For example, the notes may explain a change in accounting policy or other related policy.

Notes 9A and 9B are discussed in more detail over the next few slides.



## Categories of Inventory and OM&S (cont.)



Note 9.	Inventory and Related Property	
As of September 30	2004	2003
(Amounts in millions)		
1. Inventory, Net	\$ 68,207.9	\$ 64,365.4
2. Operating Materials & Supplies, Net	143,489.7	139,351.2
3. Stockpile Materials, Net	1,521.8	1,828.0
4. Total	<u>\$ 213,219.4</u>	<u>\$ 205,544.6</u>

Note 9 is a summary of the Notes 9A through 9F. But as you can see from this graphic taken from the 2004 Performance Accountability Report (PAR), only three categories are actually shown: Inventory, Net; Operating Materials & Supplies, Net; and Stockpile Materials, Net.

These three categories equate to the Notes 9A through 9C, which are discussed over the next few pages.



## Categories of Inventory and OM&S (cont.)



### Note 9A Inventory, Net

As of September 30	2004			2003	Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Inventory, Net	
(Amounts in millions)					
<b>1. Inventory</b>					
A. Available and Purchased for Resale	\$ 75,931.7	\$ (33,557.2)	42,374.5	\$ 42,216.0	LAC, MAC
B. Held for Repair	30,027.6	(5,369.7)	24,657.9	20,206.3	LAC, MAC
C. Excess, Obsolete, and Unserviceable	5,368.1	(5,368.1)	0.0	0.0	NRV
D. Raw Materials	21.3	0.0	21.3	9.8	MAC, SP, LAC
E. Work in Process	1,154.2	0.0	1,154.2	1,933.3	AC
F. Total	<u>\$ 112,502.9</u>	<u>\$ (44,295.0)</u>	<u>68,207.9</u>	<u>\$ 64,365.4</u>	
<b>Legend for Valuation Methods:</b>					
Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses			NRV = Net Realizable Value		
SP = Standard Price			MAC = Moving Average Cost		
			AC = Actual Cost		

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

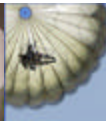
L1-18

Our discussion of inventory focuses on the categories reported in Note 9A: Available and Purchased for Resale; Held for Repair; Excess, Obsolete, and Unserviceable; Raw Materials; and Work in Process.

The category Available and Purchased for Resale is the inventory held for sale.

The majority of inventory items is purchased through Working Capital Funds.

We will now discuss the categories of OM&S on Note 9A.



## Categories of Inventory and OM&S (cont.)



### Categories of Operating Materials and Supplies (OM&S), Note 9A:

- Held for Use
- Held for Repair
- Excess, Obsolete, and Unserviceable

Note 9A		Operating Materials and Supplies, Net			
As of September 30	2004		2003		Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net	
(Amounts in millions)					
1. OM&S Categories:					
A. Held for Use	\$ 127,765.1	\$ 0.0	\$ 127,765.1	\$ 122,732.3	SP, LAC
B. Held for Repair	18,035.4	(2,310.8)	15,724.6	16,618.9	SP, LAC
C. Excess, Obsolete, and Unserviceable	3,128.9	(3,128.9)	0.0	0.0	NRV
D. Total	\$ 148,929.4	\$ (5,439.7)	\$ 143,489.7	\$ 139,351.2	
<b>Legend for Valuation Methods:</b>					
Adjusted LAC = Latest Acquisition Cost adjusted for holding gains and losses			NRV = Net Realizable Value SP = Standard Price		

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L1-19

The three categories of OM&S defined in SFFAS No. 3, and found on financial statements are: Held for Use, Held for Repair, and Excess, Obsolete, and Unserviceable. (These three categories are discussed in more detail later in the lesson.) In addition, there are five other columns that may be found on the financial statements, which are:

- OM&S Gross Value – This is the value prior to any adjustment.
- Revaluation Allowance – This column reflects a different meaning for lines 1.A. – 1.C. Revaluation Allowance is not applicable to 1.A., Held for Use. For 1.B., Held for Repair, Revaluation Allowance is the estimated cost of repair. Notice Category 1.C., Excess, Obsolete, and Unserviceable reflects the same amount as shown in the first column OM&S Gross Value. This is because the Revaluation Allowance is the NRV which equals zero; therefore, Excess, Obsolete, and Unserviceable is completely reduced in value to zero on the balance sheet.
- OM&S, Net (first column) – This represents the OM&S Gross Value less the Revaluation Allowance.
- OM&S, Net (second column) – This is a comparison of the previous FY to the current FY dollar amount (in this case, a comparison of FY 04 versus FY 03)
- Valuation Method – This states how the inventory was valued. (Methods are discussed later in the lesson.)

When we conduct our analysis of Note 9 from the financial statement, Operating Materials and Supplies, Net, we focus on the three OM&S categories represented as: A. Held for Use; B. Held for Repair; and C. Excess, Obsolete, and Unserviceable.

Let's continue with the legal and regulatory requirements for inventory and OM&S supporting documentation.



## Legal and Regulatory Requirements



### Laws and Guidance for Internal Control

- **Federal Managers Financial Integrity Act (FMFIA)**
- **Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Internal Control, and Appendix A, Internal Control over Financial Reporting**
- **Government Accountability Office (GAO) Standards for Internal Control in the Federal Government**
- **Managers' Internal Control (MIC) Program Procedures, DoD Instruction (DoDI) 5010.40**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L1-20

Because of the lack and inconsistency of good internal control processes within the government, Congress, OMB, GAO, and DoD provided guidance to establish good internal control programs. Let's examine some of that guidance.

The Federal Managers Financial Integrity Act (FMFIA) required federal agencies to establish internal control programs. As part of this implementation, the OMB issued OMB Circular A-123 and Appendix A. Circular A-123 provides specific requirements to all federal entities for assessing and reporting on their overall internal control program. Appendix A of this guidance directly addresses the additional requirement for management to become more proactive in overseeing internal controls related to financial reporting.

The DoD implemented DoD Instruction (DoDI) 5010.40, Managers' Internal Control (MIC) Program Procedures, which assigns policies, procedures, and responsibilities defined in DoD Directive (DoDD) 5010.38, Managers' Internal Control (MIC) Program.

These laws and guidance for internal control represent a top-to-bottom approach. When these procedures are disseminated and then communicated to lower levels, Standard Operating Procedures (SOPs) are established.

Let's discuss the FMFIA.



## Legal and Regulatory Requirements (cont.)



### **Federal Managers' Financial Integrity Act (FMFIA)**

**Agencies must establish a process that includes:**

- **Effective internal control**
- **Internal control evaluations being performed regularly to ensure that controls are effective**
- **An annual Statement of Assurance that provides accountability at the agency head level**

Internal control is mandated by the FMFIA. The Act provides for effective internal control, regular internal control evaluations, and annual certification.

In particular, the FMFIA overall process pertains to establishing and assessing internal control for all programs, including operational and administrative controls, establishing and assessing internal control over financial reporting, and reporting reasonable assurance over internal controls.

This includes identifying any material weaknesses during the assessment with plans and a schedule to promptly correct them and ensure that the internal controls are achieving their intended objectives.

The FMFIA Financial Reporting Process within the MIC Program applies only to the Financial Statement Reporting Entities (which includes the Defense Finance and Accounting Service (DFAS)), designated by either the OMB or the Department to produce stand-alone financial statements.

Let's discuss the OMB Circular A-123 and Appendix A, Internal Control over Financial Reporting.



## Legal and Regulatory Requirements (cont.)



### **OMB Circular A-123, Management's Responsibility for Internal Control, and Appendix A, Internal Control over Financial Reporting**

- **Establishing cost-effective management controls**
- **Providing adequate management controls**
- **Identifying needed improvements**
- **Taking corrective actions**
- **Reporting annually on management controls**

**<http://www.whitehouse.gov/omb/circulars/a123/a123.html>**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L1-22

The OMB issued A-123 under the authority of the FMFIA. This publication contains guidance for federal managers on improving accountability and effectiveness of federal programs. The circular requires agencies to:

- develop and implement appropriate cost-effective management controls for results-oriented management
- assess the adequacy of management controls in programs and operations
- identify needed improvements
- take corrective action
- report annually on management controls
- Appendix A emphasizes management's responsibility for establishing and maintaining effective internal control over financial reporting.

OMB Circular A-123 and Appendix A discusses internal control. This control is used in an organization to establish policies and procedures and to assist in achieving desired results and safeguard the integrity of their programs. Again, from this guidance, SOPs are established at a lower level by management.

The circular also requires documentation that the assurance statements and information related to Sections 2 and 4, and internal control over financial reporting should be provided in a single FMFIA report section of the annual PAR labeled Management Assurances. The section should contain the annual assurance statements, summaries of material weaknesses and non-conformances, and summaries of corrective action plans. Management's assurance statement relating to internal control over financial reporting and any related material weaknesses and corrective actions shall be separately identified and are reported as of June 30 of the reporting year.

Let's discuss the procedures of the DoDI 5010.40 Program.






## Legal and Regulatory Requirements (cont.)



### Managers' Internal Control (MIC) Program Procedures, DoDI 5010.40

- **Management control programs**
- **Annual Statement of Assurance**

	Department of Defense
	<b>INSTRUCTION</b>
	NUMBER 5010.40
<hr/>	
	USD(C)
SUBJECT: Managers' Internal Control (MIC) Program Procedures	
References: (a) DoD Instruction 5010.40, "Management Control (MC) Program Procedures" August 28, 1996, (hereby canceled)	
(b) DoD Directive 5010.38, "Managers' Internal Control (MIC) Program,"	
(c) Section 3512 of title 31, United States Code	
(d) Office of Management and Budget Circular No. A-123, "Management's Responsibility for Internal Control," December 21, 2004	
(e) through (v), see enclosure 1	

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L1-23

DoDI 5010.40, Managers' Internal Control (MIC) Program Procedures, establishes the policy, assigns responsibilities, and prescribes procedures found in the DoDD 5010.38, MIC Program, FMFIA, and OMB Circular A-123 and Appendix A.

In accordance with DoDD 5010.38, the Departments will establish a management control program, take action to identify and correct ineffective management controls, and establish new ones when needed.

DoD Components are required to maintain their management control programs and report on their effectiveness.

Components are required to submit in their annual program's Statement of Assurance the effectiveness of their internal control. The Statement of Assurance also includes material weaknesses and their proposed corrective action plan. Circular A-123 also requires a separate assurance statement for management on the effectiveness of internal control over financial reporting. These statements of assurance are signed by the head of the DoD Component and submitted to the Secretary of Defense (SECDEF) annually.

Let's continue on to discuss the legal and regulatory requirements for supporting documentation.



## Legal and Regulatory Requirements (cont.)



### **Reasons for maintaining supporting documentation:**

- **Required by regulations and law**
- **Increases accountability**
- **Establishes audit trails**
- **Assures management access to data necessary for good management decisions**
- **Assists in obtaining an unqualified audit opinion**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L1-24

The FMFIA established compliance and requirements for federal agencies for obligations, safeguarding of assets, and properly recording of financial and logistics documentation. When audit trails are established, accountability in these areas is properly supported.

The Government Performance and Results Act (GPRA) was enacted to hold agencies accountable for their program's results. Fiscal accountability is increased when there is evidential matter available to support areas such as establishing standards, defining missions, preparing plans, measuring performance, and identifying performance gaps and performance goals.

The revised OMB Circular A-123 and Appendix A directs management to become more proactive in overseeing internal controls related to financial reporting. The DoDFMR, Volumes 4 and 11B, support the requirements of OMB for audit trails therefore increasing the accountability and effectiveness of operations. Based on OMB and DoDFMR directives, agencies create their own internal regulations to specifically address their unique issues. In certain instances, waivers of higher level directives may be requested in response to unique requirements of the entity and still be in compliance with GAAP.

It is known that relevant, sufficient, and competent documentation is necessary to afford a reasonable basis for an unqualified audit opinion. Most of the auditors' work involves obtaining and evaluating evidential matter to test the fair presentation of the financial statements. Audit trails are not just for auditors. They are used by DoD personnel every day to properly maintain internal control.



## Legal and Regulatory Requirements (cont.)



### Chief Financial Officers (CFO) Act

- **Mandates a 5-year financial management plan**
- **Requires annually audited financial statements**
- **Transfers much of the standard-setting authority from the GAO to the OMB**
- **Establishes the Chief Financial Officers**
- **Provides for increased agency accountability**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L1-25

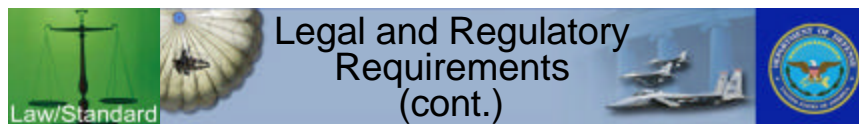
Congress mandated, through the CFO Act, as amended by the GPRA, that federal agencies prepare auditable financial statements annually.

This was the first such requirement in federal history and required considerable changes in the activities of federal participants. For example, a consolidated auditable financial statement must be produced from the Department's 19 subordinate financial statement reporting entities.

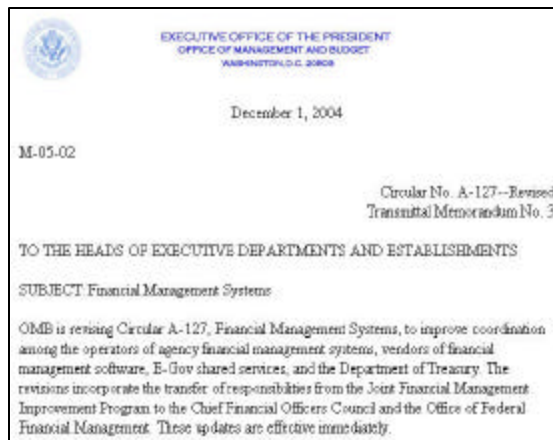
As of FY 2004, only seven of the 19 entities have received a favorable audit opinion on their financial statements.

The CFO Act remains significant, as other laws have been added to complement and refine Congressional intent.

Let's discuss some OMB requirements.



## OMB Circular No. A-127, Financial Management Systems



Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L1-26

OMB Circular No. A-127, Financial Management Systems, prescribes policies and standards for executive departments and agencies to follow in developing, operating, evaluating, and reporting on financial management systems.

This circular has been updated twice, most recently on December 1, 2004, with Transmittal Memorandum No. 3. OMB Circular No. A-127 provides for certain financial management system requirements such as a classification structure consistent with the U.S. Government Standard General Ledger (USSGL) maintained by the Treasury.

This circular further provides that financial management systems must contain common agency data elements to record transactions, common transaction processing of similar events, consistent internal control applied throughout the system, and efficient transaction entry to eliminate redundant data entry.

One of the more relevant aspects of this circular is its direction over agency financial management reporting. OMB Circular No. A-127 establishes specific criteria, including that financial management systems will provide timely and useful information as prescribed by the OMB and Treasury.

Let's talk about OMB Bulletin No. 01-02.



## Legal and Regulatory Requirements (cont.)



### OMB Bulletin No. 01-02

October 16, 2000

OMB BULLETIN NO. 01-02

TO THE HEADS, INSPECTORS GENERAL, AND CHIEF FINANCIAL OFFICERS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Audit Requirements for Federal Financial Statements

1. Purpose. This Bulletin, which includes an Attachment and Appendices A through I, establishes minimum requirements for audits of Federal financial statements. The Bulletin is issued under the authority of the Budget and Accounting Act of 1921, as amended, and the Budget and Accounting Procedures Act of 1950, as amended. It implements the audit provisions of the Chief Financial Officers (CFOs) Act of 1990 (P.L. 101-576), as amended, the Government Management Reform Act (GMRA) of 1994 (P.L. 103-356), and the Federal Financial Management Improvement Act of 1996 (P.L. 104-208). The requirements of this Bulletin are set forth in the Attachment.

2. Applicability. The provisions of the Bulletin apply to audits of financial statements of executive departments and agencies and certain components of these agencies, listed in Appendices A and B, respectively.

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L1-27

OMB Bulletin No. 01-02, Audit Requirements for Federal Financial Statements, establishes minimum requirements for audits of federal financial statements. This bulletin was issued under the authority of the Budget and Accounting Act, as amended, and the Budget and Accounting Procedures Act, as amended. This bulletin implements the audit provisions of the CFO Act, the Government Management Reform Act (GMRA), and the FMFIA.

An amendment to OMB Bulletin No. 01-02 was published to provide guidance on the financial statement audits of federal agencies. This bulletin requires agencies to submit audited financial statement information for the compilation of the Financial Report of the U.S. Government, beginning in FY 2004.

This new process will aid in resolving material deficiencies of the financial reports cited by the GAO. This bulletin provides clarification of the applicability of OMB Bulletin No. 01-02 to include the revised listing of executive departments and agencies required to prepare financial statements.

Let's discuss OMB Circular No. A-130.



## Legal and Regulatory Requirements (cont.)



### **OMB Circular No. A-130, Management of Federal Information Resources**

**This circular establishes policy for the management of federal information resources, including procedural and analytic guidelines, for implementing specific aspects of these policies.**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S


L1-28

The policies of this circular apply to the information activities of all agencies of the executive branch of the federal government. The information management policy includes:


- how agencies conduct information management planning
- guidelines for information collection
- guidelines for electronic information collection
- how agencies implement records management
- how agencies provide information to the public
- defining information dissemination management systems
- how agencies must avoid improperly restrictive practices
- how agencies carry out electronic information dissemination
- what safeguards agencies must follow.

The OMB uses information technology planning reviews, fiscal budget reviews, information collection budget reviews, management reviews, and other measures as the Director deems necessary, to evaluate the adequacy and effectiveness of each agency's information resources management and compliance of the circular.


Let's discuss OMB Circular A-136.




Law/Standard




## Legal and Regulatory Requirements (cont.)





### OMB Circular No. A-136



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

August 23, 2005

CIRCULAR NO. A-136  
Revised

TO THE HEADS OF EXECUTIVE DEPARTMENTS, AGENCIES, AND OTHER ENTITIES SUBJECT TO THE CHIEF FINANCIAL OFFICERS ACT AND THE ACCOUNTABILITY OF TAX DOLLARS ACT AND GOVERNMENT ENTITIES SUBJECT TO THE GOVERNMENT CORPORATIONS CONTROL ACT.

SUBJECT: Financial Reporting Requirements

The Office of Management and Budget in conjunction with the Chief Financial Officers (CFO) Council undertook an effort to consolidate, clarify and update existing OMB guidance relating to agency and government-wide financial reporting. OMB Circular A-136, *Financial Reporting Requirements* (Circular A-136) establishes this central reference point and supersedes OMB memoranda and bulletins listed in the overview to this Circular, section (5).

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L1-29

OMB Circular No. A-136, Financial Reporting Requirements, replaces OMB Bulletin 01-09. This circular establishes a central point of reference for all Federal financial reporting guidance for Executive Branch departments, agencies, and entities required to submit audited financial statements, interim financial statements, and PAR under the CFO Act, and other Acts. This circular is available on the OMB home page.

Part A of this circular incorporates and updates Bulletin 01-09, Form and Content of Agency Financial Statements, which provides guidance and instruction to those covered departments, agencies, and other entities on preparing PARs. The guidance on preparing the Financial Report of the United States Government is located in Part B of this circular.

The DoD provides guidance for the creation of auditable financial statements in Volume 6B of the DoDFMR. The auditable financial statements respond to the requirements of the CFO Act that requires the DoD to produce the following six auditable financial statements: Balance Sheet, Statement of Net Costs, Statement of Changes in Net Position, Statement of Budgetary Resources, Statement of Financing, and the Statement of Custodial Activity.

Let's talk about the DFAS.



## Legal and Regulatory Requirements (cont.)



**Defense Finance and Accounting Service (DFAS) provides finance and accounting services to the DoD.**

**DFAS initiatives focus on business processes that are within its control, such as Fund Balance with Treasury (FBWT), Accounts Receivable, Accounts Payable, and DFAS accounting systems.**



Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L1-30

The mission of DFAS is to provide responsive, professional finance and accounting services for the DoD. One of its goals is to satisfy customer requirements and aggressively resolve problems to deliver the best-value services.

While doing this, DFAS continuously reviews current finance and accounting systems and procedures, and identifies improvements that can be made to processes and systems.

DFAS initiatives are focused on business processes that are within its control, such as Fund Balance with Treasury (FBWT), Accounts Receivable, Accounts Payable, and DFAS accounting systems.

DFAS has already held DoD-wide conferences on DFAS business processes and systems audits with customers, the DoD audit community, and the GAO.

Let's discuss some key reasons for maintaining supporting documentation, also referred to as evidential matter.





## Legal and Regulatory Requirements (cont.)



### Key Reasons for Maintaining Evidential Matter

- **Establishes audit trails**
- **Increases accountability**
- **Assists in obtaining an unqualified audit opinion**
- **Required by regulations and law**

When field work is performed for audits the evidential matter should be sufficient, competent, and relevant to afford a reasonable basis for the auditor's findings and conclusions. Evidential matter is categorized as physical, documentary, testimonial, and analytical.

Physical evidence is obtained by direct inspection or observation of people, property, or events. Documentary evidence consists of created information such as letters, contracts, accounting records, invoices, and management information on performance. Testimonial evidence is obtained through inquiries, interviews, or questionnaires. Analytical evidence includes computations, comparisons, separation of information into components, and rational arguments.

When audit trails for logistics and financial transactions are established, as in the DoDFMR, accountability and effectiveness of operations are increased. Relevant, sufficient, and competent evidential matter is necessary to afford a reasonable basis for an unqualified audit opinion.

Your transactions result in the numbers presented in the financial statements and those numbers are what the auditors begin with when they start their audit. The importance of knowing what supporting documents are required and where they are kept is easily seen because most of the auditor's work involves obtaining and evaluating evidential matter to test the fair representation of the financial statements.

Let's discuss the requirements for maintaining documentation.



## Legal and Regulatory Requirements (cont.)



### **National Archives and Records Administration (NARA)**

- **Establishes policies and procedures for managing government records**
- **Assists federal agencies in documenting their activities and retiring non-current records**
- **Documentation adequacy – furnish information necessary to protect legal and financial rights of agency**

**NARA GRS: <http://www.archives.gov/records-mgmt/ardor/>**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

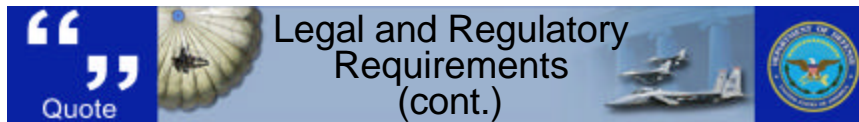
L1-32

The National Archive and Records Administration (NARA) is the primary authority for records retention and is responsible for the adequacy of documentation and records disposition. For documentation to be adequate, an organization's function, policies, decisions, and procedures must be complete and accurate. NARA establishes policies and procedures for managing government records and assists federal agencies in documenting their activities, administering records management programs, scheduling records, and retiring non-current records.

Your connection to the NARA is primarily through the General Records Schedules (GRS). The GRS covers only records that are common among several agencies. This means the Department is responsible for developing complete coverage schedules of the disposition of all its records not covered under the GRS.

An example of documents covered under the GRS are seen in Schedule No. 8, Stores, Plant, and Cost Accounting Records. GRS No. 8 states that invoice files used for stores accounting purposes may be destroyed after three years; however, agencies may decide to keep them longer. This is a complicated area that requires each agency to examine its policies and establish training accordingly.

Let's look at the regulatory requirements used at the agency level.



## **Federal Financial Management Improvement Act (FFMIA)**

**Agencies shall implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the United States Government Standard General Ledger (USSGL) at the transaction level.**

**FFMIA:** [http://www.whitehouse.gov/omb/financial/ffs\\_ffmia.html](http://www.whitehouse.gov/omb/financial/ffs_ffmia.html)

Version 1.0

How to Prepare for an Audit of Inventory and OM&S


L1-33

The Federal Financial Management Improvement Act (FFMIA) builds upon and complements the CFO Act, the GPRA, and the GMRA. It was enacted because Congress found that:


- federal accounting standards had not been uniformly implemented in financial management systems for agencies
- federal financial management continues to be seriously deficient, and federal financial management and fiscal practices have failed to identify costs fully, reflect the total liabilities of congressional actions, and accurately report the financial condition of the federal government
- federal accounting practices do not accurately report financial results of the federal government or the full costs of programs and activities
- waste and inefficiency in the federal government undermines the confidence of the American people in the government and reduces the federal government's ability to address vital public needs.

Because of these findings, agencies must incorporate accounting standards and reporting objectives established for the federal government into their financial management systems to rebuild their accountability and credibility. It was recommended that auditors report on agency compliance and agency heads determine compliance of financial management systems and the USSGL.



Let's discuss the GAO Government Auditing Standards.



Law/Standard

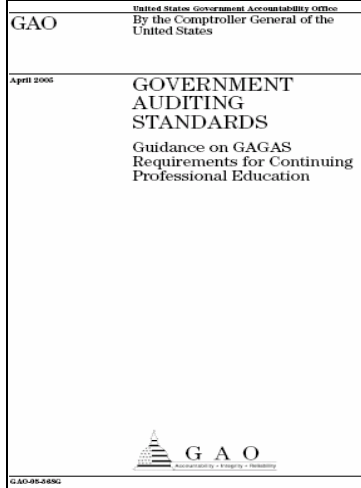


## Legal and Regulatory Requirements (cont.)

### GAO Yellow Book

**GAO:** <http://www.gao.gov/govaud/ybcp2005.pdf>



Version 1.0
How to Prepare for an Audit of Inventory and OM&S
L1-34

The GAO publishes the Government Auditing Standards in a publication known as the Yellow Book. These standards provide an overall framework for ensuring that auditors have the competence, integrity, objectivity, and independence in planning, conducting, and reporting on their work. This publication contains information on:

- types of government audits and attestation engagements
- evidential matter
- general standards
- field work standards for financial audits
- reporting standards for financial audits
- general, field work, and reporting standards for attestation engagements
- field work standards for performance audits
- reporting standards for performance audits.

The numerical data presented on auditable statements, especially those prepared by the DoD relating to OM&S, needs to be supported by evidential matter.

Let's discuss some of the GAO guidelines regarding evidential matter.



## Legal and Regulatory Requirements (cont.)



**Evidential matter consists of accounting data and all corroborating information made available to auditors.**

**The GAO Yellow Book requires that relevant, sufficient, and competent evidence be obtained through inspection, observation, inquiries, and confirmation to afford a reasonable basis for an opinion regarding the financial statements being audited.**

The GAO Yellow Book identifies specific requirements regarding evidential matter. Evidential matter consists of hard or electronic copies of original source documentation, and is considered competent when it is relevant, sufficient, and reliable.

Relevant means that the evidential matter relates to the specific audit objective being tested. Sufficient means is there enough information there. Reliable refers to whether the evidence signals the true state of the assertion or audit objective.

The auditors also look for effective internal controls to assure that the information presented on the form is relevant, sufficient, and reliable enough to develop an opinion.

Let's look at the GAO/President's Council on Integrity and Efficiency (PCIE) Financial Audit Manual (FAM).



## Legal and Regulatory Requirements (cont.)



### **GAO/President's Council on Integrity and Efficiency (PCIE) Financial Audit Manual (FAM)**

- **Volume 1, Methodology**
- **Volume 2, Tools**
- **GAO-04-1015G – FAM Update by GAO/PCIE**
- **GAO-04-942G – FAM Update – Checklist for Federal Accounting, Reporting, and Disclosure by GAO/PCIE**

**GAO/PCIE: <http://www.gao.gov/special.pubs/gaopcie/>**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

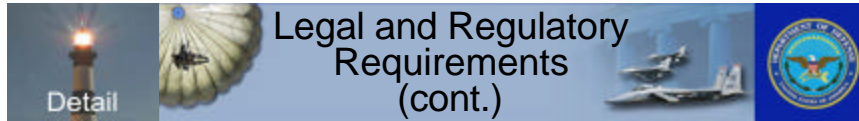
L1-36

We will discuss some of the tools used during the validation process by auditors. The GAO/PCIE FAM provides guidance for performing financial statement audits of federal entities. This is a key tool for enhancing accountability over resources. With the passage of the GMRA, executive branch Inspector Generals (IGs) and the GAO gained statutory responsibility for auditing agency and government-wide consolidated financial statements.

The GAO and PCIE have worked together to ensure that these audits are of the highest possible quality, consistency, and cost-effectiveness. The FAM is a result of that cooperation. The GAO/PCIE FAM consists of two volumes including the two July 2004 updates. Volume 1, Methodology, includes the four phases of planning, internal control, testing, and reporting. Volume 2, Tools, includes sections on planning and general information, internal control, compliance, substantive testing, and reporting. The July 2004 updates include the:

- GAO-04-1015G FAM, which incorporates the provisions of Auditing Standard 99, Consideration of Fraud in a Financial Statement Audit
- GAO-04-942G FAM, in which the GAO revised the checklist for reports prepared under the CFO Act (CFO Checklist).

Let's discuss the FAM Checklist.



## Reporting 1050 - Checklist for Federal Accounting, Reporting, and Disclosures

Reporting 1050 – Checklist for Federal Accounting, Reporting, and Disclosures		
Section III		
Balance Sheet		
Assets	Yes, No or N/A	Explanation
<b>Operating Materials and Supplies (126– 137)</b>		
<i>Operating materials and supplies are tangible personal property to be consumed in normal operations. Excluded are (1) goods that have been acquired to construct real property and equipment for the entity's use (2) stockpile materials, (3) goods held under price stabilization programs, (4) foreclosed property, (5) seized and forfeited property, and (6) inventory. (SFFAS 3, par. 36 &amp; OMB Bulletin 01-09, p.21, section 3.3)</i>		
126. Are operating materials and supplies recognized and reported as assets when produced or purchased? (SFFAS 3, par. 38)		
127. Are operating materials and supplies valued at historical cost, including all appropriate purchase and production costs incurred to bring the items to their current condition and location? (SFFAS 3, par. 42-43)		

Version 1.0

How to Prepare for an Audit of Inventory and OM&S


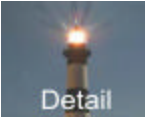
L1-37

The checklist can be a tool for the audited entity to ensure compliance with applicable regulations, guidelines, and Departmental policy. When this checklist is used, the respondent would answer either Yes, No, or N/A. The response would indicate either that the audited entity was in compliance or the question did not apply to it.



In this example, we are asked in Question 126 if we are in compliance with SFFAS No. 3, Accounting for Inventory and Related Property. This question is trying to determine whether OM&S is entered into the accounting records upon purchase or at some later point in time. If not when produced or purchased, it would indicate a breakdown in internal control procedures, since it would indicate that we were not complying with SFFAS No. 3.

For Question 127, we are asked if we are properly valuing OM&S at historical cost, plus including all appropriate purchase and production costs incurred to bring the items to their current condition and location. Again, an answer of No by the audited entity would indicate a breakdown in internal control procedures, since we should follow the guidance in SFFAS No. 3.

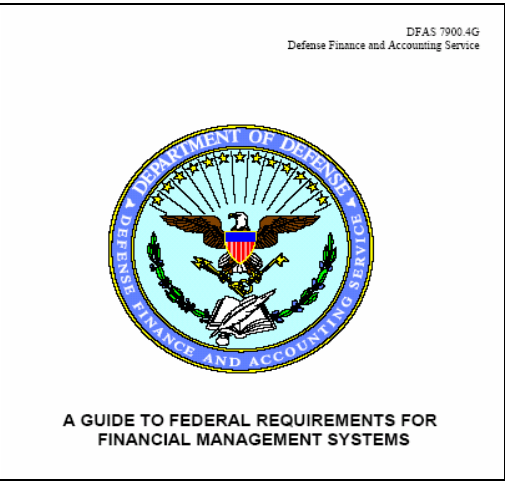
Let's discuss DFAS 7900.4G, better known as the Blue Book.



# Legal and Regulatory Requirements (cont.)



## DFAS Guide or Blue Book



DFAS 7900.4G  
Defense Finance and Accounting Service

A GUIDE TO FEDERAL REQUIREMENTS FOR  
FINANCIAL MANAGEMENT SYSTEMS

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L1-38

The DFAS 7900.4G, Blue Book, provides a synopsis of federal requirements for financial management systems. This publication was prepared by DFAS. It represents a comprehensive compilation of financial management systems requirements mandated by the FFMIA. The requirements contained within this publication are applicable to accounting and finance systems operated and maintained by DFAS as well as feeder systems owned by the military services and DoD component agencies.

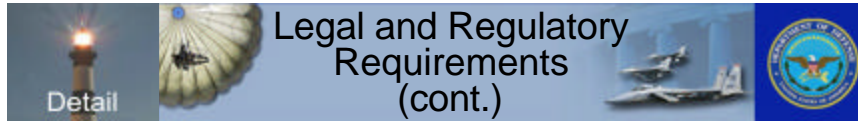
This publication represents an extensive compilation of federal requirements applicable to DoD's financial management systems. It may not include all requirements that pertain to such systems. This publication contains numerous requirements promulgated by agencies and the DoD.

The publication represents a valuable tool for systems managers, operators, programmers, and accountants to use in planning, developing, implementing, modifying, and evaluating financial management systems.

The basic intent of this publication is to focus management's attention on the requirements financial management systems must satisfy. Management is explicitly responsible for being knowledgeable of the actual laws and regulations, and ensuring that their systems comply with them.

Let's look at how the DFAS Blue Book, Chapter 4, applies to OM&S.





## DFAS Guide or Blue Book, Chapter 4

DFAS 7900.4G  
February 2005

**CHAPTER 4**  
**Inventory, Operating Materials and Supplies, Stockpile Materials**  
**Introduction**

The Department of Defense is the largest holder of inventory assets in the Federal government, owning and controlling such assets with net values exceeding \$125 billion. The magnitude of the Department's inventory holdings and their significance to financial management and program operations require stringent systems of accountability and control. Inventory systems must be an integral part of DoD's total financial management system. JFMIP publishes inventory system requirements in FFMSR-7.

In addition to systems requirements promulgated by JFMIP, OMB has published specific accounting requirements for inventories and related assets in SFFAS-3, "Accounting for Inventory and Related Property." SFFAS-3 stipulates that inventories be accounted for at historical cost or methods which approximate historical costs. The Department has selected the moving average cost method for valuing its inventory and related materials. Components may request policy exceptions per the Director for Accounting Policy (ODCFO-AP).

Version 1.0

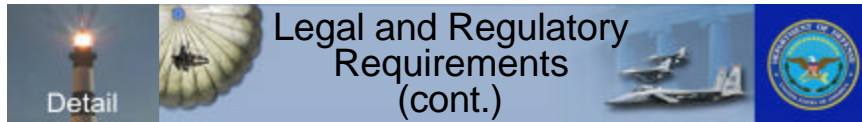
How to Prepare for an Audit of Inventory and OM&S

L1-39

The DFAS Blue Book, Chapter 4, provides information on Inventory, OM&S, and Stockpile Materials. This chapter identifies the systems requirements for inventories and related assets in accordance with SFFAS No. 3, Accounting for Inventory and Related Property.

One key point in Chapter 4 is that SFFAS No. 3 stipulates that inventories must be accounted for at historical cost or methods that approximate historical costs. The Department selected the moving average cost method for valuing inventory and related materials.

Let's look at some of the functional requirements in the DFAS Blue Book.



## DFAS Guide or Blue Book: Items included in Chapter 4

DFAS 7900.4G  
February 2005

**INVENTORY (INCLUDING OPERATING MATERIALS AND SUPPLIES, AND STOCKPILE MATERIALS)**

**Functional Requirements**

1. Inventory Recognition and Valuation
2. Determining Inventory Needs
3. Inventory in Storage
4. Inventory Undergoing Repair or in Production
5. Inventory Disposition
6. Inventory Program Planning and Monitoring
7. Operating Materials and Supplies
8. Stockpile Materials
9. Reporting

Version 1.0

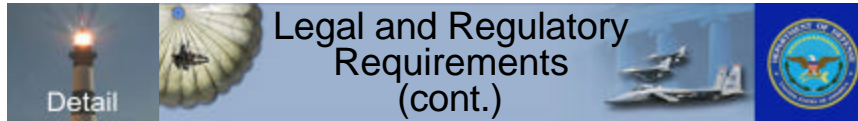
How to Prepare for an Audit of Inventory and OM&S

L1-40

The functional requirements addressed in this publication include inventory recognition and valuation, determining inventory needs, inventory in storage, inventory undergoing repair or in production, inventory disposition, inventory program planning and monitoring, OM&S, stockpile materials, and reporting.

The next slide discusses the functional requirement: inventory recognition and valuation. For each of the functional requirements, there is specific guidance that must be followed. This guidance includes SFFAS No. 3 and the DoDFMR.

Let's discuss the functional requirement of inventory recognition and valuation.



## DFAS Guide or Blue Book, Chapter 4, Inventory Requirements

Req. ID	V A	A T	REQUIREMENTS	INVENTORY	SOURCE(S)
<b>01 Inventory Recognition and Valuation</b>					
04.01.01		C	The system must categorize inventory, as defined in SFFAS 3, Paragraph 18, as (1) inventory held for sale, (2) excess, obsolete, or unserviceable inventory, or (3) inventory held for repair.		SFFAS-3, 18; FFMSR-7, 22; "DoDFMR," Volume 6B, Chapter 10, 10-64
04.01.02		C	The system must record inventory when title passes or when the goods are delivered to the purchasing entity, whichever comes first.		SFFAS-3, 19; "DoDFMR," Volume 11B, Chapter 55, G.2
04.01.03		C	The system must recognize expenses related to the sale of inventory or its use in the provision of a service. It must also remove the cost of those goods from inventory.		SFFAS-3, 19; "DoDFMR," Volume 11B, Chapter 55, 55-8, G.2

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L1-41

The slide identifies the system requirements and applicable sources for inventory recognition and valuation.

The first required identification, (Req. ID) 04.01.01, reads, "The system must categorize inventory, as defined in SFFAS No. 3, Paragraph 18, as (1) inventory held for sale, (2) excess, obsolete, or unserviceable, or (3) inventory held for repair."

The source for these requirements are identified in SFFAS No. 3, Paragraph 18; Federal Financial Management Systems Requirement-7; and the DoDFMR, Volume 6B, Chapter 10, Page 10-64.

Let's continue with an example of an SOP.



## Legal and Regulatory Requirements (cont.)



### Standard Operating Procedures (SOPs)

- **Provide detailed descriptions of locally-used procedures**
- **Deviations from higher headquarters procedures must be described and justified**
- **Provide process standardization**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L1-42

A detailed SOP is a description of locally-used procedures. Any deviation from the approved procedures must be clearly described and justified in writing. SOPs provide standardization of certain processes. They complement regulatory guidance and are used to direct processes within the organization toward regulatory compliance. Examples of items for conducting an inventory are:

- establish accountability
- establish written policies
- frequency of counts
- segregation of duties
- knowledgeable staff
- proper supervision
- completeness of count
- execution of the count
- perform research
- evaluate the count results.

Auditors may review SOPs to see if the organization is conducting inventories in accordance with applicable guidance.

Let's look at some examples of financial statements.



## Proof of Statements and Checklist Integrity



### Balance Sheet

Department of Defense Agency Wide CONSOLIDATED BALANCE SHEET As of September 30, 2004 and 2003 (\$ in Millions)		
	2004 Consolidated	2003 Consolidated Restated
<b>ASSETS (Note 2)</b>		
Intragovernmental:		
Fund Balance with Treasury (Note 3)		
Entity	\$ 267,686.5	\$ 251,544.1
Non-Entity Seized Iraqi Cash	113.4	278.1
Non-Entity-Other	1,800.0	239.8
Investments (Note 4)	231,086.7	205,376.0
Accounts Receivable (Note 5)	1,118.3	1,066.6
Other Assets (Note 6)	1,011.9	105.0
Total Intragovernmental Assets	\$ 522,798.8	\$ 458,609.6
Cash and Other Monetary Assets (Note 7)	\$ 2,178.1	\$ 1,534.9
Accounts Receivable (Note 5)	7,427.8	7,269.9
Loans Receivable (Note 8)	70.7	64.0
<b>Inventory and Related Property (Note 9)</b>	<b>213,219.4</b>	<b>205,544.6</b>
General Property, Plant and Equipment (Note 10)	440,898.5	446,308.9
Investments (Note 4)	406.5	217.8
Other Assets (Note 6)	21,486.3	21,729.6
<b>TOTAL ASSETS</b>	<b>\$ 1,208,486.2</b>	<b>\$ 1,141,309.3</b>

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L1-43

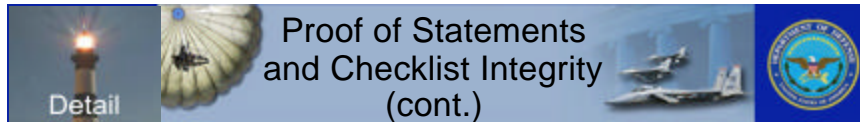
OMB Circular A-136, Financial Reporting Requirements provides guidance for the form and content of your agency's financial statements. Financial information is composed of principal financial statements, notes to the statements, consolidated and combined statements, and other required information.

The Balance Sheet contains the agencies assets, liabilities, and net position. This Balance Sheet is the starting point for the auditors when they conduct an audit of inventory and OM&S.

The auditors start by looking at the asset called Inventory and Related Property (Note 9).

The auditors compare the dollar amount of \$213,219.4 (million) against Note 9, to make sure that these dollar amounts agree.

Let's continue with a discussion of Note 9.



### Note 9

Note 9.	Inventory and Related Property	
As of September 30	2004	2003
(Amounts in millions)		
1. Inventory, Net	\$ 68,207.9	\$ 64,365.4
2. Operating Materials & Supplies, Net	143,489.7	139,351.2
3. Stockpile Materials, Net	1,521.8	1,828.0
4. Total	\$ 213,219.4	\$ 205,544.6

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L1-44

We looked at the Balance Sheet and determined that the dollar amount for Inventory and Related Property is \$213,219.4 (million).

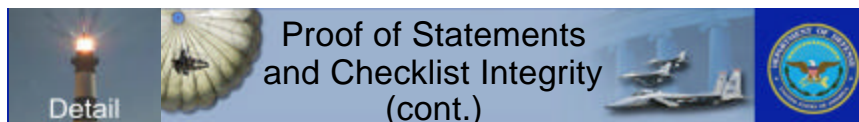
You will note that the total dollar amount on Line 4 equals \$213,219.4 (million). We can see that the dollar amounts are in agreement.

On Note 9, there are three categories that have a net dollar amount:

- Inventory, Net \$68,207.9 (million)
- Operating Materials & Supplies, Net \$143,489.7 (million)
- Stockpile Materials, Net \$1,521.8 (million).

From here, the auditors look at each one of these three categories to make sure these dollar amounts are in agreement.

Let's continue with the first line on Note 9, Inventory, Net.



## Note 9A, Inventory, Net

Inventory, Net					
As of September 30	2004			2003	Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Inventory, Net	
(Amounts in millions)					
<b>1. Inventory</b>					
A. Available and Purchased for Resale	\$ 75,931.7	\$ (33,557.2)	42,374.5	\$ 42,216.0	LAC, MAC
B. Held for Repair	30,027.6	(5,369.7)	24,657.9	20,206.3	LAC, MAC
C. Excess, Obsolete, and Unserviceable	5,368.1	(5,368.1)	0.0	0.0	NRV
D. Raw Materials	21.3	0.0	21.3	9.8	MAC, SP, LAC
E. Work in Process	1,154.2	0.0	1,154.2	1,933.3	AC
F. Total	<u>\$ 112,502.9</u>	<u>\$ (44,295.0)</u>	<u>68,207.9</u>	<u>\$ 64,365.4</u>	
<b>Legend for Valuation Methods:</b>					
Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses			NRV = Net Realizable Value		
SP = Standard Price			MAC = Moving Average Cost		
			AC = Actual Cost		

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L1-45

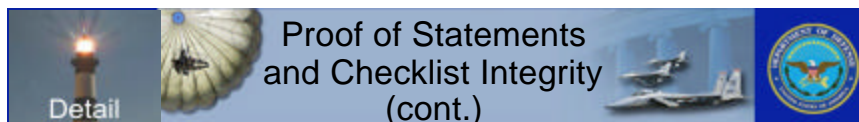
The dollar amount found in Note 9A, Line F, \$68,207.9, agrees with the figure presented as Line 1 in Note 9, Inventory Net, on the previous page. An auditor may or may not decide to drill down even further to review the evidential matter used to calculate the figures in the columns of Inventory, Gross Value, Revaluation Allowance, Inventory, Net (which is Inventory, Gross Value minus Revaluation Allowance), and Valuation Method.

The inventory is revalued periodically but at least at the end of each fiscal year. Revaluation results in recognition of unrealized holding gains/losses in the ending inventory value. Upon adjustment for unrealized gains/losses, the latest acquisition cost method then results in an approximation of Historical Cost.

The last column shows the valuation method that can include: LAC, MAC, NRV, AC, SP, and Adjusted LAC (adjusted for holdings gains and losses).

Inventory includes spare and repair parts, clothing and textiles, and fuels held for sale by the Defense Working Capital Funds (DWCFs). Inventory is tangible personal property that is held for sale or held for repair for eventual sale, in the process of production for sale, or is to be consumed in the production of goods for sale or in the provision of services for a fee.

Let's continue with OM&S categories.



## Note 9B, Operating Materials and Supplies, Net

Operating Materials and Supplies, Net					
As of September 30	2004			2003	Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net	
(Amounts in millions)					
1. OM&S Categories:					
A. Held for Use	\$ 127,765.1	\$ 0.0	\$ 127,765.1	\$ 122,732.3	SP, LAC
B. Held for Repair	18,035.4	(2,310.8)	15,724.6	16,618.9	SP, LAC
C. Excess, Obsolete, and Unserviceable	3,128.9	(3,128.9)	0.0	0.0	NRV
D. Total	\$ 148,929.4	\$ (5,439.7)	\$ 143,489.7	\$ 139,351.2	
Legend for Valuation Methods:					
Adjusted LAC = Latest Acquisition Cost adjusted for holding gains and losses			NRV = Net Realizable Value SP = Standard Price		

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L1-46

The total dollar amounts agree from Note 9B, which is \$143,489.7 (million). There are three categories of Operating Materials and Supplies, Net:

- Held for Use
- Held for Repair
- Excess, Obsolete, and Unserviceable.

The four valuation methods are SP, LAC, NRV, and the Adjusted LAC.

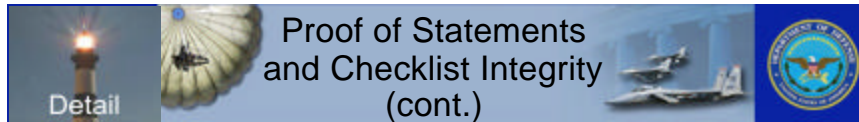
OM&S includes spare and repair parts, ammunition, tactical missiles, and centrally-managed aircraft engines held for consumption by General Funds. Generally, there are no restrictions on the use or disposition of OM&S.

When there is an increase or decrease in the OM&S, Net dollar amounts from fiscal year to fiscal year, the fluctuations are identified.

For example, part of the increase is attributed to the Army General Fund reporting an increase in its OM&S by \$5.1 billion. The net increase was attributed to an increase in missile procurement, Army OM&S, reported by the U.S. Army Missile Command and an increase being reported by the World-Wide Ammunition Reporting System (WARS).

Let's continue with the OM&S category of Stockpile Materials, Net.





## Note 9C, Stockpile Materials, Net

Stockpile Materials, Net					
As of September 30	2004			2003	Valuation Method
	Stockpile Materials Amount	Allowance for Gains (Losses)	Stockpile Materials, Net	Stockpile Materials, Net	
(Amounts in millions)					
1. Stockpile Materials Categories:					
A. Held for Sale	\$ 1,427.7	\$ 0.0	\$ 1,427.7	\$ 1,691.8	AC, LCM AC, LCM
B. Held in Reserve for Future Sale	94.1	0.0	94.1	136.2	
C. Total	\$ 1,521.8	\$ 0.0	\$ 1,521.8	\$ 1,828.0	
<b>Legend for Valuation Methods:</b>					
AC = Actual Cost		LCM = Lower of Cost or Market			

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L1-47

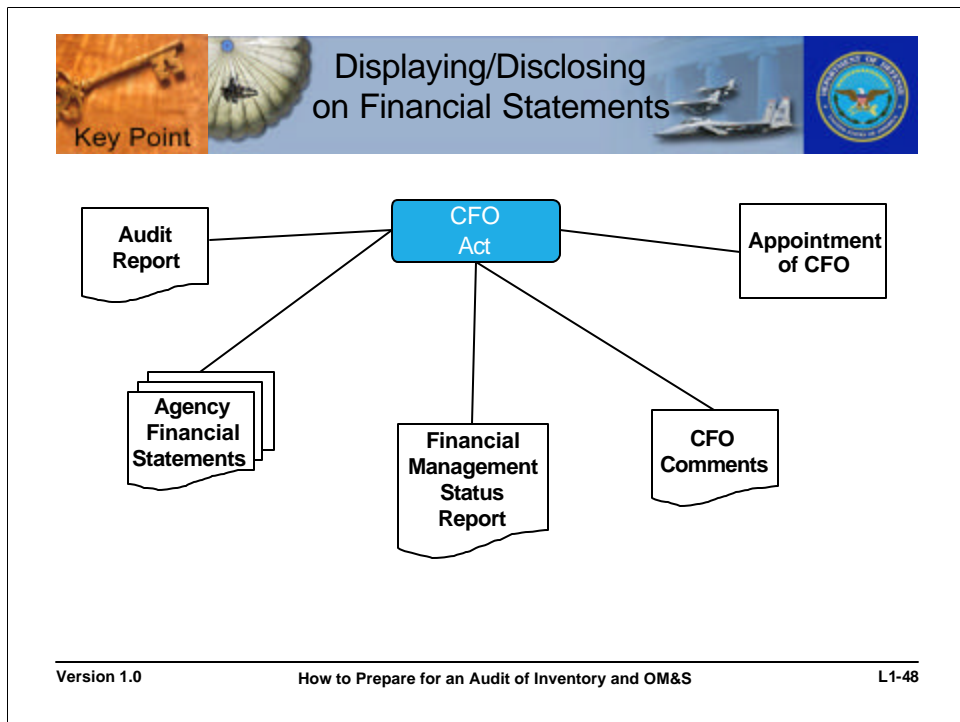
The category, Stockpile Materials, Net, primarily affects the DNSC and is slated to be eliminated. Information about this category is presented because it still is part of Note 9C and therefore worthy of explanation. We can see that the dollar amounts agree from Note 9, which are \$1,521.8 (million). In the Stockpile Materials, Net, on the far left, we have two categories: Held for Sale and Held in Reserve for Future Sale.

This sample shows the Stockpile Materials Amount minus Allowance for Gains or (Losses) which equals the Stockpile Materials, Net. The last column shows the valuation methods that include the AC or Lower of Cost or Market (LCM).

The fluctuation from the previous year was due in part due to a systemic programming error in FY 2003, which was subsequently corrected. A decrease in inventory Held for Sale is the result of material sales in FY 2004. In addition, since the National Stockpile Mission does not call for replenishing inventories, there will always be an annual decline of inventory.

Stockpile materials are strategic and critical materials held, due to statutory requirements, or for use in national Defense, conservation or national emergencies.

Let's discuss why the auditors conduct an analysis of the statements.



The CFO Act provides for a designated executive agency for the reporting of that agency's financial status. Within the DoD, the CFO Act requires the establishment of an agency CFO at the Department level. Below the Department level, the services and agencies may have a Chief Financial Executive (CFE) or other named financial manager to serve as their point of contact for financial reporting.

The CFO and select CFEs prepare and submit an annual report to the agency head and the Director of the OMB. This annual report includes the status of financial management, copies of the annual financial statements, the audit report, a summary of the reports on internal accounting and administrative control systems submitted to the President and Congress (under the FMFIA), and other information deemed appropriate.

The CFO Act requires that each financial statement be audited in accordance with applicable Generally Accepted Government Auditing Standards (GAGAS). According to the 2004 DoD PAR, several of the Department's subordinate agencies have received a favorable audit opinion on their financial statements.

Let's look at the requirements in the DoDFMR for disclosure on the financial statements.



## Displaying/Disclosing on Financial Statements (cont.)



### **DoD Financial Management Regulation (DoDFMR), Volume 6B, Chapter 14, Disclosure Checklist**

- **Assists preparers of federal financial statements**
- **Provides a list of disclosures required by the SFFAS**
- **Volume 6B is the guidance for DoD on the form and content of financial statements**

**DoDFMR: <http://www.dod.mil/comptroller/fmr/>**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L1-49

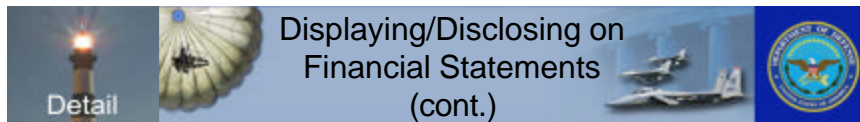
Volume 6B of the DoDFMR is the DoD guidance on form and content for financial statements. When there is conflict between the OMB and the DoD, the DoD guidance is followed.

Volume 6B, Chapter 14, Disclosure Checklist, provides the preparer of financial statements with the information that is required by the SFFAS. This is not a comprehensive or an authoritative list of required disclosures. The SFFAS and Volume 6B, Chapter 14, provide the complete guidance.

One of the disclosures on the financial statement (Balance Sheet) is assets. Included in the assets section is Inventory and Related Property. Within Inventory and Related Property, there are three categories: Inventory, Net; Operating Materials and Supplies, Net; and Stockpile Materials, Net.

The DoDFMR provides the guidance for required disclosure information by SFFAS, subject area, SFFAS paragraph number, DoDFMR reference, required disclosure, and the location on the financial statements.

Let's look at the DoDFMR for some examples of required disclosure information.



## DoDFMR Volume 6B, Chapter 14, Disclosure Checklist

(1) SFFAS	(2) Subject Area	(3) SFFAS Para. No.	(4) DoDFMR Volume 6B Chapter	(5) Required Disclosure	(6) Fin. Stmnt.	(7) Foot- note	(8) RSSI	(9) RSI & OAI
3	Inventory (Continued)	35	★ <a href="#">Chapter 10</a> , note 9	(d) inventory held for repair unless otherwise presented on the financial statements (5) Restrictions on the sale of material. (6) The decision criteria for identifying the category to which inventory is assigned. (7) Changes in the criteria for identifying the category to which inventory is assigned.				
3	Operating Materials and Supplies (OMS)	45	★ <a href="#">Chapter 4</a> and <a href="#">Chapter 10</a> , note 9	The value of OMS held in reserve for future use that is included on the OMS line item on the face of the financial statement will be separately disclosed in note 9.	X	X		

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

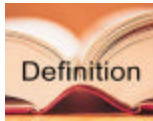
L1-50

This example shows some of the information required by the DoDFMR, Volume 6B, Chapter 14, Disclosure Checklist. The information is broken down by row and column and identifies:

- SFFAS
- Subject Area
- SFFAS Paragraph Number
- DoDFMR Reference
- Required Disclosure
- Location (Columns 6, 7, 8, or 9).

Let's look at the second row for OM&S. The requirement in the first column is from SFFAS No. 3, the SFFAS Paragraph Number is 45, and the location in the DoDFMR, is Chapters 4, and 10, and Note 9. The required disclosure reads: "The value of OM&S held in reserve for future use that is included on the OM&S line item on the face of the financial statement will be separately disclosed in Note 9." Note that in Columns 6 and 7, the information is disclosed both on the financial statement and the footnote, as indicated with an X. Once the audit is completed, the auditor renders an opinion on the financial statements.

Let's look at the different types of opinions.



## Displaying/Disclosing on Financial Statements (cont.)



### **Types of Financial Statement Audit Opinions**

**Unqualified Opinion** – Opinion that is without any material exception as to a general statement of reliability of the items specified within the limits of the audit

**Qualified Opinion** – Opinion stating that, except for the effects of the matter(s) to which the qualification relates, the financial statements present fairly the financial position of the organization

**Adverse Opinion** – Opinion stating that the financial statements do not fairly present the financial position of the organization

**Disclaimer of Opinion** – Auditor does not express an opinion on the financial statements

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L1-51

An unqualified opinion is the preferred result. The unqualified opinion has no material exception as to a general statement of reliability. Any other opinion is deemed to be a result of one or more material departures from the GAAP, or the auditors have been unable to obtain sufficient evidence regarding one or more of the management's assertions. As a result, the auditors do not have a reasonable basis for an unqualified opinion on the financial statements.

Other types of opinions include: a qualified opinion which states that, except for the effects of the matter(s) to which the qualification relates, the financial statements fairly present the financial position of the organization; an adverse opinion which states that the financial statements do not fairly present the financial position of the organization; or a disclaimer of opinion which states that the auditor does not express an opinion on the financial statements.

To obtain an unqualified audit opinion, the financial statements must be fully auditable and be compiled in accordance with GAAP. This means that the underlying data and procedures are sufficient, accurate, testable, and reliable enough for the auditor to obtain a basis for forming an unqualified opinion.

Only one of these types of opinions is given for the financial statements as a whole.

Let's talk about material weaknesses.

L1-51



## DoD Material Deficiencies



### Types of Weaknesses Defined

- **Deficiency – Lacking in adequate competence, readiness, knowledge, or means**
- **Systemic Weakness – Material weakness that affects management controls across organizational and program lines and usually affects multiple DoD Components**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

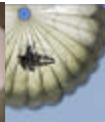
L1-52

During an audit, auditors may find errors in areas asserted by management. These are classified as deficiencies. Deficiencies can be immaterial and have no effect on the overall assertions of management, such as a minor recording error traceable to a single document or a significant problem that involves an entire process, such as an inability to verify the value or ownership of property or material that was not valued correctly on the financial statement.

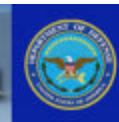
Systemic weaknesses are material weaknesses that affect management controls across organizational and program lines and usually affect multiple DoD Components.

The auditors base their opinions upon management's assertions as to the existence or occurrence, completeness, rights and obligations, valuation or allocation, and presentation and disclosure of reported data. For example, management asserts that the amount reported as inventory is based on the existence of appropriate OM&S or other items of inventory required to be reported within the line item of the financial statement as of the reporting date, that the reported inventory is complete, that it belongs to the reporting entity, and that it is stated at its proper value.

Let's discuss the part of the DoD PAR, specifically called Management Discussion and Analysis (MDA).



## DoD Material Deficiencies (cont.)



### **DoD Performance and Accountability Report, FY 2004**

# **Part 1: Management Discussion and Analysis**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L1-53

The MDA for FY 2004, which is part of the DoD Performance and Accountability Report, defines the mission, organization, and resources for the U.S. Armed Forces.

Within the MDA, there is a section that explains the Department's compliance with legal and regulatory requirements such as the CFO Act, FMFIA, FFMIA, and IG Act Amendments.

The Department currently has 11 auditor-identified financial statement material weaknesses.

Let's look at weaknesses in the categories of Government Property and Material in the Possession of Contractors, Inventory, and Operating Materials and Supplies.



## DoD Material Deficiencies (cont.)



### MDA, Financial Statement Weakness – Government Property and Material in the Possession of Contractors

Government Property and Material in the Possession of Contractors	The cost of DoD property and material in the possession of contractors is not reliably reported due to a lack of an integrated reporting methodology.	The Department is developing policy and processes to help correct this weakness. Implementation of new policy and the Department's business enterprise architecture will eliminate this problem. To improve accountability, accuracy, and reliability, DoD is in the process of creating an on-line government property system to be jointly used by government and industry for recording property in the possession of contractors.
---	---	---

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

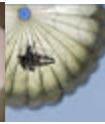
L1-54

The weaknesses shown here, and on the next two slides, relate to material weaknesses identified at the Departmental level. This weakness relates to Government Property and Material in the Possession of Contractors, as shown in the first column. In the second column, the weakness is specifically identified, and in the third column, the corrective action explains how the Department is in the process of developing policy and processes to help correct the weakness.

Later in this lesson, we will discuss what you can do at your level to ensure contractors report government material in their possession.

Let's talk about the material weakness that relates to inventory.





## DoD Material Deficiencies (cont.)



### MDA, Financial Statement Weaknesses – Inventory

Inventory	The existing inventory valuation at most activities is not reported in accordance with generally accepted accounting principles.	The Department issued a change in policy in fiscal year 2001 to begin valuing inventory at moving-average-cost to comply with historical cost valuation requirements. In fiscal year 2004, the Department chartered the Inventory and Operating Materials and Supplies Working Group to identify and develop processes and methods leading to inventory valuation based on historical costs. This effort involves assessing the Department's major logistics and financial systems—current and future—to determine the adequacy for producing historically-based valuations. The working group is developing valuation techniques where standard methods are not feasible or practical.
-----------	--	---

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

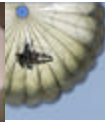
L1-55

This weakness, identified at the Departmental level, deals with inventory valuation and is identified in the second column. In the second column, the weakness identified is concerned with inventory valuation. In the third column, the Department's corrective action taken to issue a change in policy to comply with historical cost valuation requirements, is recorded.

It should be noted that there are some basic steps to arrive at baseline figures for the valuation of inventory and OM&S. These steps are primarily based on a process of gathering information from stock control, logistics, and inventory accounting systems that support and maintain reportable on-hand quantities of OM&S.

These steps are in Appendix C of the Student Guide and will be discussed in Lesson 2.

Let's continue with the third example of a weakness.



## DoD Material Deficiencies (cont.)



### MDA, Financial Statement Weaknesses – OM&S

#### Operating Materials and Supplies

The Department's systems were designed to expense materials when purchased rather than when consumed.

The Inventory and Operating Materials and Supplies Working Group is addressing this issue by examining the Department's practices, processes, and systems to determine the appropriate Department-wide business rules and systems that will correct this weakness.

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L1-56

This OM&S weakness is also identified at the Departmental level. It describes how the Department's systems expensed materials when they were purchased, rather than when they were consumed.

The corrective action in the third column states that the Department has established a working group to examine practices and determine the appropriate Department-wide business rules and systems that will correct the weakness.

Let's continue with some weaknesses identified in audit reports.



## Property in the Possession of Contractors



### **Guidance for Contractors in Possession of Material**

- **DoDFMR, Volume 4, Chapter 6, Property, Plant, and Equipment (PP&E)**
- **Federal Acquisition Regulation (FAR), Part 45, Contractor-acquired, Government-furnished Property**
- **DoDI 5000.64, Defense Property Accountability**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L1-57

The DoDFMR, Volume 4, Chapter 6, provides guidance for Government Material (contractor-acquired or government-furnished) in Possession of Contractors. In the past, government-furnished property was reported on the DD Form 1662, but the Department is in the process of replacing the form. Presently, government-furnished material is not being reported in accordance with SFFAS No. 3. Procedures are being developed to account for the OM&S.

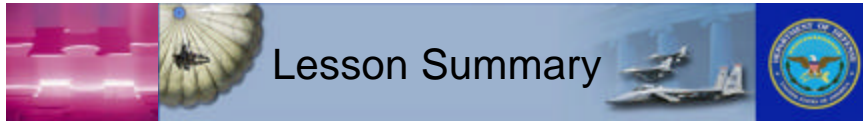
The Federal Acquisition Regulation (FAR), Part 45, provides guidance for the contractor's responsibility and liability for government property in its possession, unless otherwise provided by the contract.

This material must be under continuous accounting and property control and only used for proper and authorized purposes, safeguarded from theft, abuse, waste, and unauthorized use.

Material means property that may be incorporated into or attached to a deliverable end item or that may be consumed or expended in performing a contract. It includes assemblies, components, parts, raw and processed materials, and small tools and supplies, that may be consumed in normal use in performing a contract.

DoDI 5000.64, Defense Property Accountability, provides a comprehensive framework for DoD property accountability policies, procedures, and practices. This DoDI informs DoD property managers, financial officers, and other officials in understanding their roles and responsibilities relating to property accountability.

Let's summarize what we learned in this lesson.



- **FASAB**
- **Categories of Inventory and OM&S**
- **Legal and Regulatory Requirements**
- **Proof of Statements and Checklist Integrity**

In this lesson, you learned about the mission of the FASAB, the requirements to promulgate federal accounting standards, and the FASAB concepts and statements applicable to inventory and OM&S. In particular, you learned about SFFAS No. 3, which provides specific information on accounting for inventory and related property. You learned the definition of OM&S and the categories within each of them. You also learned that MAC is the method preferred by the Department.

You learned about the different acts passed by Congress including the FMFIA, GPRA, and CFO Act, and the roles of DFAS, the OMB, NARA, and GAO during the audit process. You learned about the importance of checklists, SOPs, and evidential matter.

You learned from the perspective of an auditor how a financial audit is conducted by analyzing the Balance Sheet and Note 9, and the information that is disclosed on the financial statements.

Let's continue with our review.



## Lesson Summary (cont.)



- **Displaying/Disclosing on Financial Statements**
- **DoD Material Deficiencies**
- **Property in the Possession of Contractors**

We discussed the displaying and disclosing of financial information through the use of audited financial statements, and in particular, the Balance Sheet. You learned that certain information on the financial statements is supported by various notes and that auditors search for evidential material not only for the financial statement figures, but also for those figures found in the accompanying notes.

You were briefed on the four types of auditor opinions: unqualified, qualified, adverse, and disclaimer.

We learned about the DoD PAR that defines the Department's mission, and the MDA section that deals with financial statement weaknesses and proposed corrective actions at the Departmental level.

You learned about the guidance that contractors must follow when they possess government property and some of the requirements of the DoDFMR and FAR.

The following slides list references available for additional information.



## References



**DoDFMR:** <http://www.dod.mil/comptroller/fmr/>

**GAO Government Auditing Standards (Yellow Book):**  
<http://www.gao.gov/govaud/ybk01.htm>

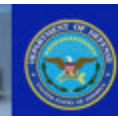
**OMB Bulletin 01-02:**  
<http://www.whitehouse.gov/omb/bulletins/>

**OMB Circulars A-123 and A-136:**  
<http://www.whitehouse.gov/omb/circulars/>

**FASAB and SFFAS:** <http://www.fasab.gov/>



## References (cont.)



**RPIR:** [http://www.acq.osd.mil/ie/bt/rpir/rpir\\_1-19-05.doc](http://www.acq.osd.mil/ie/bt/rpir/rpir_1-19-05.doc)

**FMFIA:** <http://www.dod.mil/comptroller/fmfia>

**FAR:** <http://www.arnet.gov/far/>

**AICPA:** <http://www.aicpa.org/index.htm>

**NARA GRS:** <http://www.archives.gov/records-mgmt/ardor/>

**GPRA:**  
<http://www.whitehouse.gov/omb/mgmt-gpra/>

**DoDI 5000.64:**  
<http://www.dtic.mil/whs/directives/corres/html/500064.htm>



## References (cont.)



**GAO/PCIE FAM:**

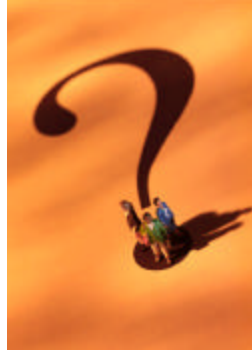
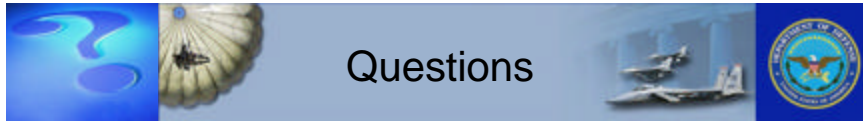
**<http://www.gao.gov/special.pubs/gaopcie/>**

**PAR: <http://www.defenselink.mil/comptroller/par>**

**FFMIA:**

**[http://www.whitehouse.gov/omb/financial/ffs\\_ffmia.html](http://www.whitehouse.gov/omb/financial/ffs_ffmia.html)**





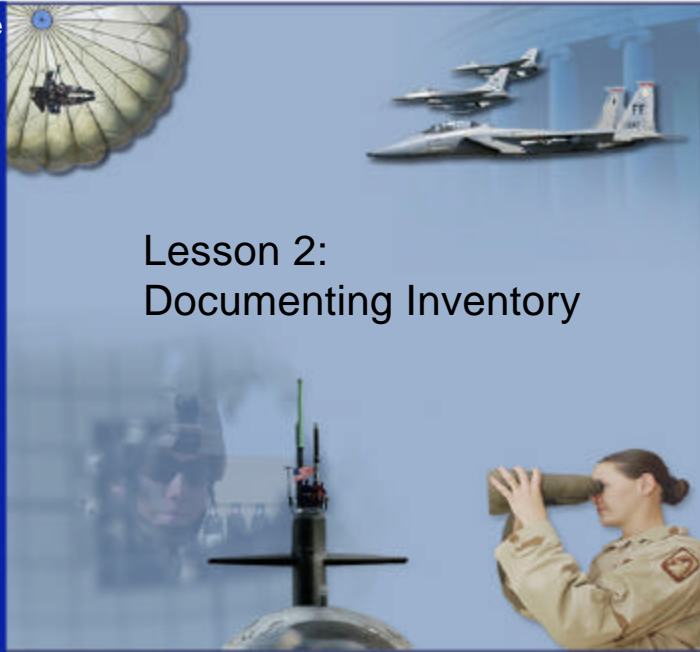
Before we move on to Lesson 2, Documenting Inventory, do you have any questions on the material covered in this lesson?

**This page intentionally left blank.**

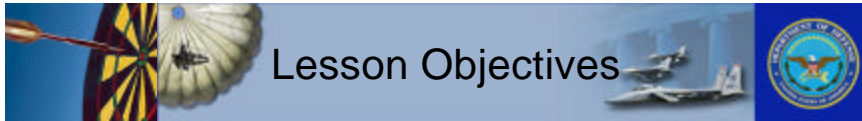
How to Prepare  
for an Audit of  
Inventory and  
OM&S



## Lesson 2: Documenting Inventory



In this lesson, we examine the procedures for documenting inventory and related property from several points of view, all with the goal of helping you become better prepared for an audit of inventory in your organization.



**Upon successful completion of this lesson, you will be able to:**

- **Identify adequate inventory supporting documentation**
- **Explain how to value inventory**

This lesson discusses the different types of inventory documentation and explains how to properly document inventory purchased for sale with a close look at document flow, audit trails, the five categories of management assertions, and the various methods used to value inventory items.

This lesson will also explain the importance of maintaining supporting documentation during audits to obtain an unqualified audit opinion.

Let's discuss the lesson topics.



## Lesson Topics



**This lesson contains the following topics:**

- **Proper Source Documentation**
- **Inventory Audit Trails**
- **File Maintenance**
- **Audit Folders**
- **Methods of Inventory Valuations**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L2-3

In this lesson, we define some of the important types of documentation such as contracts, invoices, receiving reports, Department of Defense (DD) forms, Standard Forms (SF), and the importance of this documentation in support of audits of inventory. We discuss the five categories of management assertions: Existence or Occurrence, Completeness, Rights and Obligations, Valuation and Allocation, and Presentation.

We discuss the importance of audit trails and how to establish procedures to maintain the inventory files using tools such as Electronic Document Access (EDA), Electronic Document Management (EDM), and On-Line Report View (OLRV).

We also discuss how to establish audit folders so that source documentation is readily available to auditors. We provide information on how to value your inventory using the Moving Average Cost (MAC).

Let's discuss some types of inventory source documentation.



## Proper Source Documentation



### Inventory Source Documentation

- **Purchase Orders (Contracts)**
- **Receiving Reports**
- **Department of Defense (DD) Forms**
- **Standard Forms (SFs)**

Proper supporting documentation or evidential matter for inventory is obtained from a variety of internal and external sources. This documentation must be available to the auditors during an audit.

At every point of the acquisition and/or sale of inventory, there must be adequate supporting documentation. We will look at some of the specific source documents, along with showing a systems flow inventory transactions.

Let's continue with a discussion of the importance of source documentation.



## Proper Source Documentation (cont.)



### Importance of Documentation

- **Required by regulations**
- **Supports the financial statements**
- **Supports inventories**
- **Establishes an audit trail for purchases, sales, transfers, and disposal of inventory**
- **Supports Journal Voucher (JV) adjustments**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L2-5

Supporting documentation or evidential matter for inventory transactions must be available to properly account for inventory. This documentation is required according to the Department of Defense Financial Management Regulation (DoDFMR), Volume 1, Chapter 9, and the National Archives and Records Administration (NARA).

The documentation supports the line items on the Balance Sheet, such as the Inventory and Related Property, that includes all related inventory items. The contracts, invoices, and various types of DD Forms support the transfer or disposal of items.

Journal Vouchers (JVs) are input to update the amounts on the Balance Sheet for inventory Held for Sale, Held for Repair, and Excess, Obsolete, and Unserviceable to balance with the specific Departments' records. The balance is adjusted to account for transfers in and out, losses, consumption, and new acquisitions. Also, an allowance for Excess, Obsolete, and Unserviceable inventory is input.

Next we take a look at who maintains inventory for resale.



## Proper Source Documentation (cont.)



**Who maintains inventory for resale and what is their mission?**

**Supply Management Business areas, within the Department of Defense (DoD), are authorized to sell items to specific entities, as defined in the Department of Defense Financial Management Regulation (DoDFMR).**

**DoDFMR: <http://www.dod.mil/comptroller/fmr/>**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L2-6

Supply management business areas maintain inventories and they are defined in the DoDFMR, Volume 11B, Chapter 55. Their authorized customers include:

- Federal government-funded activities or an activity empowered to perform a federal government legislated function
- DoD-sponsored non-appropriated fund instrumentality
- State Department-sponsored employee commissary located outside of the United States (U.S.)
- foreign governments, when an authorized contractual relationship has been established
- Federal contractors, when the contract specifically provides for the purchase of items by the contractor from the government
- members of the Armed Forces and other individuals authorized by law, when purchasing commissary and clothing items
- other entities, when authorized by duly appointed officials.

Let's talk about what entities should hold inventories.





## Proper Source Documentation (cont.)



### What entities should hold inventories?

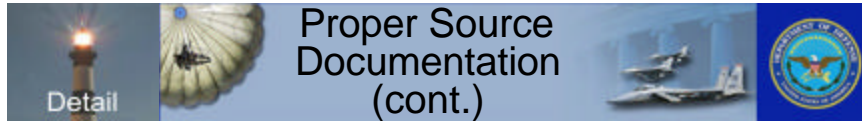
**The Supply Management Business areas and the Defense Commissary Agency (DeCA) are the only Defense Working Capital Fund (DWCF) business areas that should hold inventories.**

In accordance with Statement of Federal Financial Standards (SFFAS) No. 3, inventory is tangible property that is titled to the government, on-hand or in transit (accepted from a vendor, or moving between DoD activities) and is held for sale, future sale, repair, or pending transfer to disposal.

In general, the Supply Management Business area and the Defense Commissary Agency (DeCA) are the primary Defense Working Capital Fund (DWCF) business areas that should hold inventory. In addition to those categories required by SFFAS No. 3, the Department requires reporting of work-in-process, raw materials, and finished goods. Also recall that in-transit may be reported in any category.

The inventory is recognized when title passes to the purchasing entity or when the goods are delivered to the acquiring entity, whichever occurs first. Inventory expense is recognized upon sale and the value of those goods are removed from inventory. The delivery or constructive delivery is based on the terms of the contract or other agreement regarding shipping and/or delivery.

Let's discuss Inventory Held for Sale.



### **Inventory Held for Sale**

- **Valued at Historical Cost**
- **Recognized when the title passes to the purchasing entity or when the goods are delivered to the purchasing entity**
- **Delivery or constructive delivery is based on terms of the contract**
- **Acquisition cost of inventory should include all amounts paid or payable, except for interest**

Version 1.0

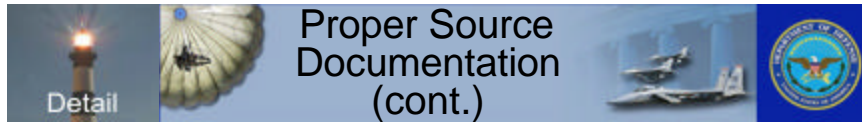
How to Prepare for an Audit of Inventory and OM&S

L2-8

Inventory held for sale should be valued at Historical Cost (Latest Acquisition Cost (LAC) should not be used), and is recognized when the title passes to the purchasing entity or when the goods are delivered to the purchasing entity. When the sale occurs (this is when the title passes or the goods are delivered) or upon use in the provision of a service, the related expense is recognized and the cost of those goods is removed from inventory. A wall-to-wall physical count of inventory held for sale should be conducted at least once per year.

Delivery or constructive delivery is based on the terms of the contract regarding shipping and/or delivery. The acquisition cost of the inventories include all amounts paid or payable, except interest, to bring the goods to their present condition and location.

Let's talk about the typical activity groups that relate to documentation of audits of inventory.



**A typical DWCF has four activity groups:**

- **Supply Management**
- **Depot Maintenance**
- **Ordnance**
- **Information Services**

**Types of material managed by the DLA include:**

- **Repair parts**
- **Industrial supplies**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L2-9




Audit documentation may come from any of the four DWCF activity groups. Supply Management Business areas buy and maintain assigned stocks of material for sale to customers. Accurate documentation is important in this area because the Military's equipment and operational readiness, and its combat capability, are directly linked to the availability of material.

Depot Maintenance provides the capability to repair, overhaul, and upgrade weapons systems equipment and provides support to other DoD activities. Ordnance provides the capability to produce quality munitions and large caliber weapons while performing a full range of ammunition maintenance and renovation for U.S. and allied forces. Information Services provides for the development and sustaining of automated information and communication systems, and provides commercial sources for purchase of small/medium computers, hardware, software, and support services.

An example of a DWCF is the Defense Logistics Agency (DLA). DLA maintains repair parts and industrial supplies and is responsible for managing and reporting the DoD fuel commodity which approximates \$3 billion in value.

DLA maintains the Defense Logistics Management System (DLMS) used to improve inventory performance within the Department.

Let's discuss the DLMS next.

	<h2>Proper Source Documentation (cont.)</h2>	
<b>DoD 4000.25-M, The Defense Logistics Management System (DLMS)</b>		
	<b>DEFENSE LOGISTICS AGENCY HEADQUARTERS 8725 JOHN J. KINGMAN ROAD, SUITE 2533 FT. BELVOIR, VIRGINIA 22060-6221</b>	<b>DoD 4000.25-M</b>
IN REPLY REFER TO DLMSO	MAR 1 0 2003	
<b>FOREWORD</b>		
<p>Department of Defense (DoD) 4000.25-M, The Defense Logistics Management System (DLMS), is published by the direction of the Deputy Under Secretary of Defense (Logistics and Materiel Readiness) (DUSD (L&amp;MR)) under the authority of the Department of Defense Directive (DoDD) 4140.1, Material Management Policy. It consists of five volumes: Volume 1, Concepts and Procedures; Volume 2, Supply Standards and Procedures; Volume 3, Transportation; Volume 4, Acquisition; and Volume 5, Finance. The manual provides policies, uniform procedures, and electronic data interchange standards for conducting DoD logistics business processes implemented under the DLMS. The DLMS is the linchpin of logistics systems standardization and modernization, both for business processes and data interchanges, within the DoD and with industry.</p>		
Version 1.0	How to Prepare for an Audit of Inventory and OM&S	L2-10


The DoD 4000.25-M, The Defense Logistics Management System (DLMS), Chapter 6, provides procedures, performance objectives, and reporting requirements for maintaining accurate records of the physical inventory, conducting physical inventory counts, and reconciling record variances for material within the supply system of the DoD.

The basic elements of the physical inventory control program prescribed by this chapter apply to the DoD Components. This chapter establishes uniform procedures on existing DoD policy for maintaining accurate records, conducting physical inventories, conducting location surveys/reconciliations, researching inventory discrepancies, causes for adjustments, performance assessment, and for quality control of work processes prescribed by the DoD Physical Inventory Program.


This chapter also establishes management control of all DoD wholesale supply system material to include principal items, petroleum products, secondary items, ammunition, forms and publications, and subsistence. Inventory requirements are in accordance with DoD 4000.25-2-M. Retention of inventory records is required for at least two years.

In addition, DoD 4140.1-R, DoD Supply Chain Material Management Regulation establishes requirements and procedures for DoD material managers and others who need to work within or with DoD supply systems.



Let's continue with an example of a DD Form 1155, Order for Supplies or Services.



Form



# Proper Source Documentation (cont.)

## DD Form 1155, Order for Supplies or Services

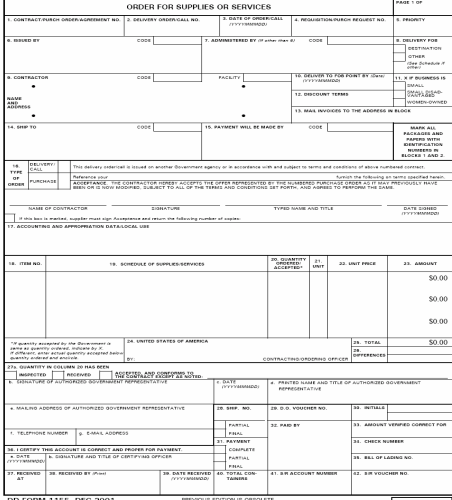
**Provides information  
on inventory items  
ordered, received, and  
funds disbursed**

<http://www.dscc.dla.mil/Offices/packaging/forms.html>

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

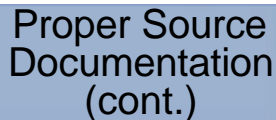
L2-11

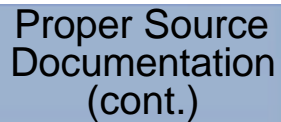


The DD Form 1155, Order for Supplies or Services, is a multi-purpose form used by the Department as a requisition/purchase request, contract, purchase order, delivery order, inspection/acceptance document, or for making disbursements. Let's discuss some specific blocks on the DD Form 1155, particularly blocks 9, 15, 17-23, 26-28, 31, 32, and 36.

The reason we examined these specific blocks on the DD Form 1155 is to familiarize you with those blocks the auditor will examine during an audit. It should also be noted that the blocks we discuss are typical of those required of every Contract Line Item Number (CLIN) throughout the contract cycle. That is, from initial procurement, receipt of item, billing or invoicing, and payment.

Let's look at an SF 1449, Solicitation/Contract/Order for Commercial Items.





**Provides information on inventory items ordered or received, and for funds disbursed**

18. ITEM NO.	20. SCHEDULE OF SUPPLIES/SERVICES	21. QUANTITY	22. UNIT	23. UNIT PRICE	24. AMOUNT
32. QUANTITY IN COLUMN 21 HAS BEEN					
<input type="checkbox"/> RECEIVED <input type="checkbox"/> INSPECTED <input type="checkbox"/> ACCEPTED, AND CONFORMS TO THE CONTRACT, EXCEPT AS NOTED.					
33. SOURCE OF AUTHORIZED GOVERNMENT REPRESENTATIVE		32. PAYING OFFICE AND TITLE OF AUTHORIZED GOVERNMENT REPRESENTATIVE			
33. MAILING ADDRESS OF AUTHORIZED GOVERNMENT REPRESENTATIVE		32. TELEPHONE NUMBER OF AUTHORIZED GOVERNMENT REPRESENTATIVE			
		32. E-MAIL OF AUTHORIZED GOVERNMENT REPRESENTATIVE			
33. SWP NUMBER	34. YOURS/OURS NUMBER	35. AGENCY TYPED CORRECT FOR	36. PAYMENT		37. CHECK NUMBER
<input type="checkbox"/> PAYING <input type="checkbox"/> PAYAL	35. EY/YOURS/OURS	36. PAY BY:	<input type="checkbox"/> COMPLETE	<input type="checkbox"/> PARTIAL	<input type="checkbox"/> FINAL
33. SW ACCOUNT NO.		35. DATE			
41a. I CERTIFY THIS ACCOUNT IS CORRECT AND PROPER FOR PAYMENT					
41c. SIGNATURE AND TITLE OF AUTHORIZED OFFICER					
42. DATE REC'D BY CUSOMER					
43. TOTAL CONTAINERS					
STANDARD FORM 1449 REV. 3-2008 (SAC)					

**L2-13**

Now let's look at an example of the DD Form 250.



## Proper Source Documentation (cont.)



# DD Form 250, Material Inspection and Receiving Report

**Provides complete and consistent accounting records, and must be maintained to support receipt of inventory**

[http://www.acq.osd.mil/dpap/dars/dfars/html/current/appendix\\_f.htm](http://www.acq.osd.mil/dpap/dars/dfars/html/current/appendix_f.htm)

**<http://www.dscclla.mil/Offices/packaging/forms.html>**

[illegible]

Version 1.0

## How to Prepare for an Audit of Inventory and OM&S

**L2-14**

The DD Form 250, Material Inspection and Receiving Report, shown here and in Appendix B, is basically a document that can be used by the government to assure contract compliance and by the contractor to submit an invoice. The contractor is responsible for preparing the DD Form 250, except for entries that an authorized government representative is required to complete.

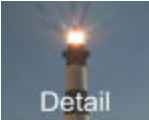
This multi-purpose form is used as evidence of government contractor quality assurance at the origin or destination, evidence of acceptance at origin or destination, packing lists, receiving, shipping, contractor invoice, and commercial invoice support. The contractor may use its own invoice to bill the government, but it must make sure that it meets all of the requirements previously discussed. If it does not, this will only slow down payment. It may be easier to use the DD Form 250.

Specific guidance is located in the Defense Federal Acquisition Regulations (DFARS), Appendix F.


Let's take a look at an example of a DD Form 1348-1A.









Detail



## Proper Source Documentation (cont.)

**Criteria for a financial liability investigation of unresolved inventory gains and losses:**

- Sensitive items, such as weapons
- Classified items
- Pilferable items when the unit price multiplied by the quantity are at least \$2,500
- Any inventory loss potentially related to fraud, theft, or negligence
- Repetitive losses where their value is at least equal to the cost of the investigation
- Bulk petroleum

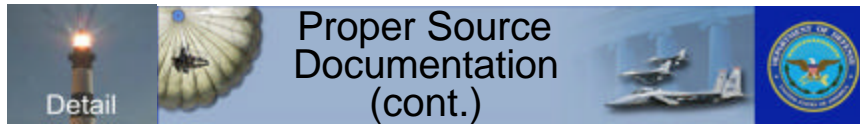
Version 1.0
How to Prepare for an Audit of Inventory and OM&S
L2-16

A financial liability investigation, sometimes referred to as a report of survey, is initiated on all unresolved inventory discrepancies for each stock number that meets any of the following criteria:

- gains and losses of sensitive items, such as weapons designated as control items, regardless of dollar value
- gains and losses of classified items, regardless of dollar value
- gains and losses of pilferable items when the unit price multiplied by the quantity is equal to or greater than \$2,500 for each stock number
- any inventory loss when there is an indication or suspicion of fraud, theft, or negligence
- repetitive losses when the cumulative dollar value of the inventory losses equals or exceeds the projected cost of the financial liability investigation
- bulk petroleum when the loss exceeds the stated allowance.

Auditors will examine mission lost or stolen reports completed when items are missing from periodic or spot physical inventories. They will check the frequency of those counts and will determine the process by which the inventory is conducted. It's important that the person conducting the inventory not have access to the inventory records themselves. There cannot be any suspicion of personnel guessing at inventories. Inventories should be actual counts.

Let's look at some of the supporting documentation involved in this process.



### **Documentation of gains and losses:**

- **DD Form 200, Financial Liability Investigation of Property Loss**
- **SF 364, Supply Discrepancy Report**

**Source: DoDFMR, Volume 12, Chapter 7, Financial Liability for Government Property Lost, Damaged, or Destroyed**

Version 1.0

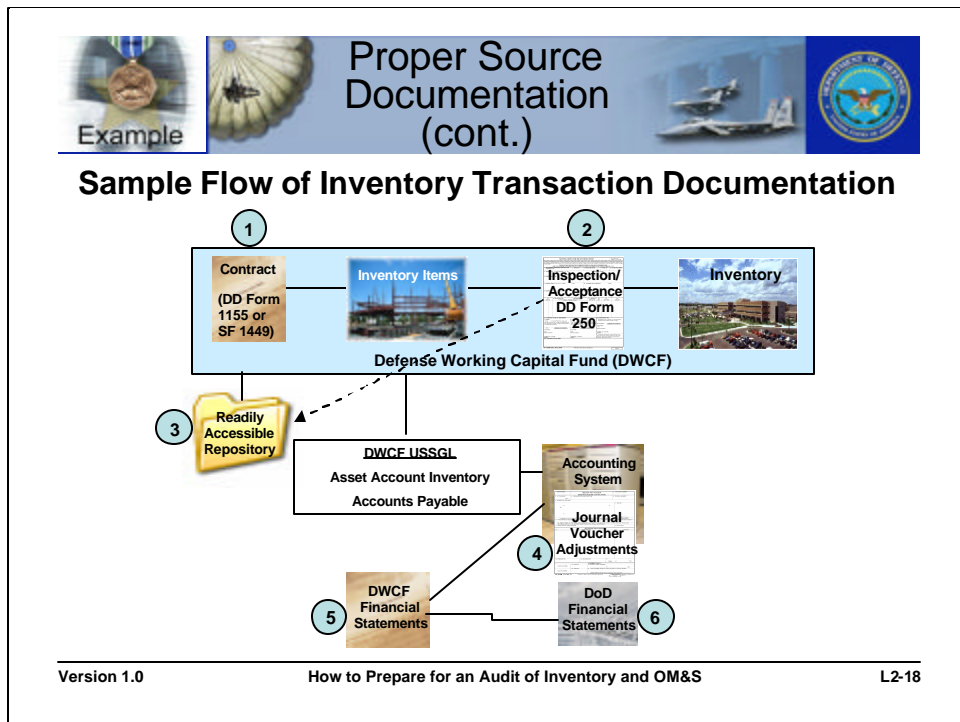
How to Prepare for an Audit of Inventory and OM&S

L2-17

The items we discussed on the previous slide are applicable to the DD Form 200, Financial Liability Investigation of Property Loss. That is, if an investigation is deemed appropriate, the DD Form 200 is the instrument to record the actions as they pass from official to official. Another important document that may be used in the process is the SF 364, Supply Discrepancy Report.

The SF 364, Supply Discrepancy Report, is the basic document required to support adjustment of property and financial inventory accounting records; information as a basis for claims against contractors; notification to shippers; visibility of preservation, packaging, packing, marking, and unitization discrepancies; required corrective actions; disposition instructions; and information for management evaluations.

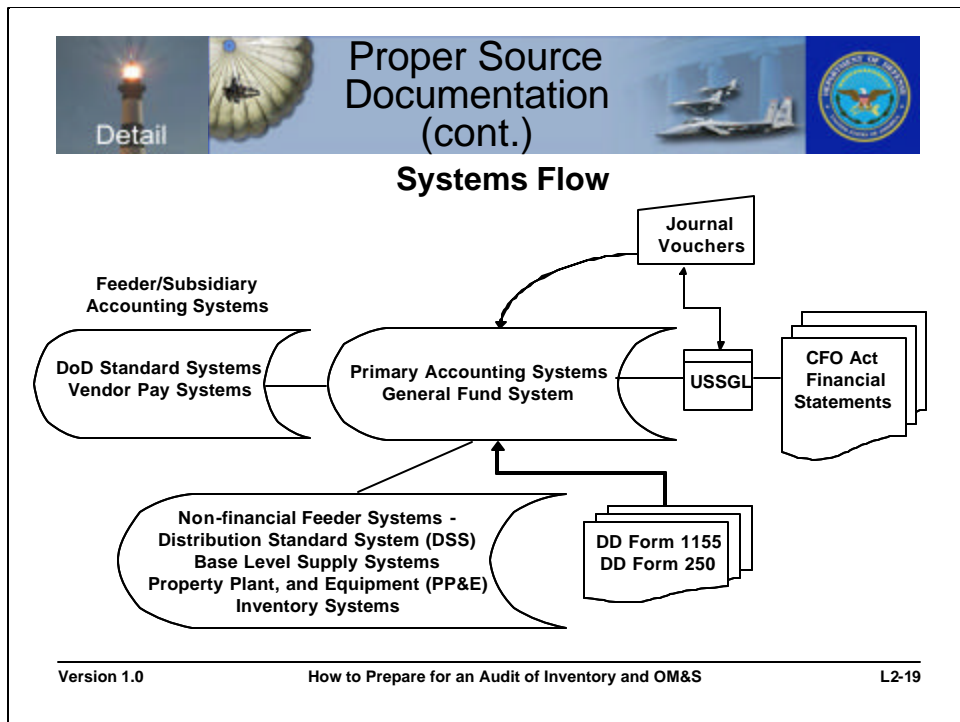
Now let's look at an example of a transaction from the contracting stage through the time the transaction updates the Department's financial statements.



This diagram illustrates an inventory transaction and its related source documentation from its initial contract through the updating of records on the activity's financial statements. The steps of the transaction are explained as follows:

1. A DD Form 1155 or an SF 1449 is used as a contract to purchase inventory items from a vendor.
2. The same DD Form 1155, SF 1449, or DD Form 250 is used to record the receipt of inventory items.
3. The contract, plus the receiving report, are placed in a readily accessible repository, like an audit folder.
4. Your accountants use JVs, if there are any adjustments required to update the inventory accounts.
5. When the inventory is received on the appropriate form, the DWCF's asset account is updated, and eventually the Balance Sheet item for Inventory and Related Property is updated.
6. Finally, when the Department's statements are consolidated, the DWCF financial statements information is passed on to the DoD financial statements.

Let's summarize the flow of source documentation for inventory transactions by looking at a specific example.

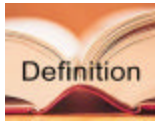


Source documentation forms the basis of the financial statements. When management approves the financial statements, they are making certain assertions about that documentation. Here we illustrate General Fund systems and processes that are affected by a typical purchase.

If we follow an example of the purchase of missiles, we see that DD Form 1155 purchase data is entered into a general fund system, such as SOMARDS. Next, follow the Vendor Pay System interacting with the accounting system to update the receipt and invoicing information. Actual acceptance may be found in non-financial feeder systems that provide input to the accounting system. For example, our missiles may be entered into PP&E inventory system that retains certain non-financial information such as quantity, condition, or location of the missiles.

All these transactions support the posting of data to the U.S. Government Standard General Ledger (USSGL). JVs may be necessary to adjust automated inputs or may be required to enter data from systems that are not connected to the accounting system. Based upon the data input, the Department's financial statements are generated.

Let's learn more about management's assertions.



## Proper Source Documentation (cont.)



### What are management assertions?

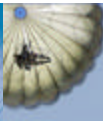
- **Representations by management that are embodied in financial statements components**
- **Representations that are either explicit or implicit**
- **Representations that are classified in five categories**

Management assertions are representations by management that are embodied in financial statements components. These assertions can be either explicit or implicit, and can be classified in five categories.

During an audit, management makes representations to the auditor, both oral and written, in response to specific inquiries or through the financial statements. Such representations from management are part of the evidential matter the independent auditor obtains. Evidential matter may be supported by documents created at the lowest level of the Department operations. It is important to note that auditors prefer clear, written, audit trails when reviewing evidential matter.

An auditor's work in forming an opinion on financial statements consists of determining if balances and notes presented in the Department's financial statements fairly represent the operations of the entity at the lowest levels (Statements of Auditing Standards 31, Evidential Matter). After obtaining evidential matter in support of financial statements assertions, the auditor develops the audit program and designs substantive tests for those assertions. These substantive tests are methods used to verify and validate the inventory information.

Now let's look at the five broad categories of assertions.



## Proper Source Documentation (cont.)



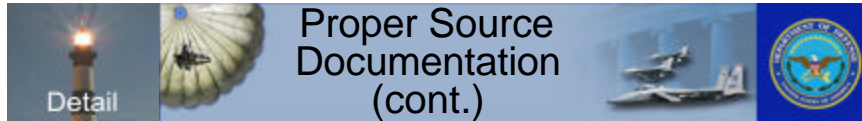
### Five Categories of Assertions

- **Existence or Occurrence**
- **Completeness**
- **Rights and Obligations**
- **Valuation or Allocation**
- **Presentation and Disclosure**

There are five broad categories of assertions that are defined in the American Institute of Professional Standards (AIPS), Section 326, Evidential Matter. These five categories are:

- Existence or Occurrence
- Completeness
- Rights and Obligations
- Valuation or Allocation
- Presentation and Disclosure.

Let's discuss the first category, Existence or Occurrence.



### Five Categories of Assertions (cont.)

- **Existence or Occurrence**

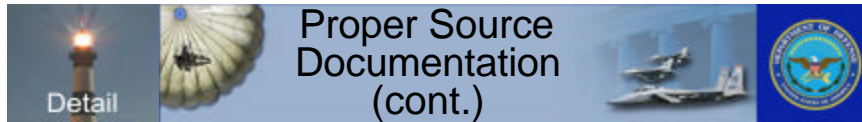
The assertions about Existence or Occurrence address whether assets or liabilities of an entity exist at a given date and whether recorded transactions have occurred during a given period.

For example, management asserts that all of the inventory and related property included on the Balance Sheet, physically exists. The auditors develop substantive tests to verify this assertion made by management. The transactions are eventually traced back to specific supporting documentation, such as the DD Form 250 or DD Form 1155.

The auditors test this assertion through observing physical inventory counts, obtaining confirmation of inventories at locations outside of the entity, or testing inventory transactions between a preliminary physical inventory date and the Balance Sheet date. This is probably the biggest missing piece within the Department; that is, adequately documenting the results of the execution of the control of inventory.

Let's discuss the next category, Completeness.





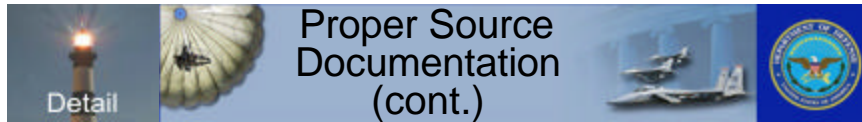
### Five Categories of Assertions (cont.)

- Existence or Occurrence
- **Completeness**

The assertion made by management about Completeness, addresses whether all transactions and accounts that should be presented in the financial statements, are included.

For example, the Department asserts that all of the inventory items purchased for the inventory are included in their financial statements. Based on this assertion by the Department, the auditor would conduct substantive tests to verify that inventory items and related transactions such as adjustments are reflected in the accounts shown in the financial statements.

Let's discuss the category, Rights and Obligations.



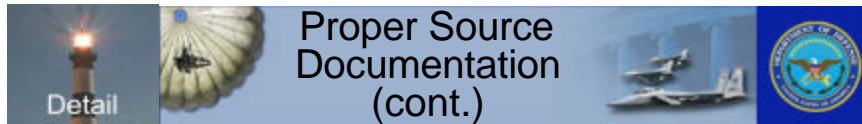
### Five Categories of Assertions (cont.)

- Existence or Occurrence
- Completeness
- Rights and Obligations

The assertion made by management about Rights and Obligations, addresses whether assets are the rights of the Department and the liabilities are the obligations of the Department at a given date.

For example, the Department asserts that amounts of inventory and related property on the Balance Sheet represent the cost of the entity's rights to the inventory and that the corresponding liabilities represent the obligation of the entity. The rights and obligations of one entity must not be commingled with the rights and obligations of another so as to confuse accurate recognition. A basic principal of financial statement reporting is that only one entity will recognize an asset or obligation at any given time.

Let's discuss the category, Valuation or Allocation.



### **Five Categories of Assertions (cont.)**

- **Existence or Occurrence**
- **Completeness**
- **Rights and Obligations**
- **Valuation or Allocation**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

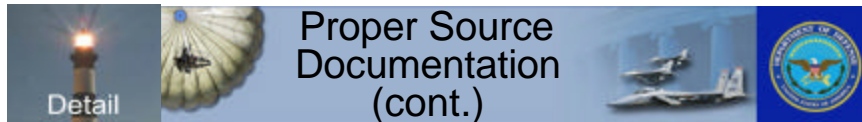
L2-25

The assertion made by management about Valuation or Allocation addresses whether the assets, liabilities, equity, revenues, and expenses have all been included in the financial statements, at the appropriate amounts.

For example, the Department asserts that the inventory is recorded at Historical Costs (and property valued in accordance with the July 6, 2001, Memorandum (Appendix D), using the MAC inventory valuation method) and that costs are systematically allocated to the appropriate accounting periods. This memorandum is discussed in more detail later in this lesson. The auditor ensures that the inventory was valued correctly and that the amount was authorized.

In addition, the Department asserts that the Accounts Receivable for sales of inventory shown on the Balance Sheet is stated at the amounts billed and due.

Let's discuss the last category, Presentation and Disclosure.



### **Five Categories of Assertions (cont.)**

- **Existence or Occurrence**
- **Completeness**
- **Rights and Obligations**
- **Valuation or Allocation**
- **Presentation and Disclosure**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S


L2-26

The assertion made by management about Presentation and Disclosure, addresses whether particular components of the financial statements are properly classified, described, and disclosed.

For example, the Department asserts that the amounts represented as Inventory – Work in Process in Note 9 to the Consolidated Balance Sheet are properly classified and described. The auditor analyzes the supporting evidential matter for the assertion. The auditor's review might include a Supply Management Business area item issued to a DoD activity for consumption in the fabrication of another item for the business area. The auditor would then verify that it is accounted for in Account 1526, Work in Process.


Each of the five categories is important. From the Department's assertions, the auditor develops audit objectives and designs substantive tests.

Let's discuss the auditor's need for supporting documentation.



Example

## Proper Source Documentation (cont.)



### Prepared by Client (PBC) List

Item	Requested Document	Contact and Phone Number	Date Requested	Date Needed	Date Received
<b>General</b>					
1.	Current version of accounting policies and procedures manual with policies and procedures for Cash and Fund Balance with Treasury, Accounts Receivable, Inventory, Property and Equipment, Advances, Accounts Payable, Accrued Liabilities, and Net Position				
2.	Trial Balance (electronic)				
3.	Access to General Ledger detail				
4.	Crosswalk of accounts to Financial Statement line items				
5.	Statement of intra-departmental elimination entries for FYXXXX				
6.	Management's Discussion and Analysis/Overview				
7.	Draft Financial Statements (electronic)				
8.	Draft Footnotes to F/S (electronic)				
9.	FYXX year-end SF-132s				
10.	Detail Schedule of Undelivered Orders (electronic)				
11.	Post-closing trial balances (electronic)				
12.	Complete Chart of Accounts (if other than SGL)				
13.	Schedule of summarized FACTS data				
14.	Organizational chart(s) of all agency departments indicating key personnel and their responsibilities.				
15.	Minutes of the audit committee for the period under audit.				
16.	Annual Performance and Strategic Plans				
17.	Any corrective action plans related to prior year DOD IG, GAO, Defense Contract Audit Agency, internal audit or external audit report, if any				

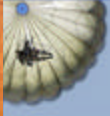

Version 1.0
How to Prepare for an Audit of Inventory and OM&S
L2-27

The auditor will need to verify the financial statement accounts by examining specific documentation that supports the numbers. During an audit entrance conference, you may receive a Prepared by Client (PBC) list from the auditors.



This PBC list provides a checklist of requested documents and is divided into five sections that include General, Compliance with Laws and Regulations, Accounts Receivable, Accounts Payable, and Inventory. It serves as a resource for the auditors to determine who they can obtain information and supporting documentation from. This list also provides a timeline and control sheet on the receipt of the information.

Part of the importance of documentation, is knowing where it is or how to obtain it. This knowledge stems from a good understanding of the audit trail, so let's talk about the importance of audit trails next.


Let's discuss the importance of audit trails.



## Inventory Audit Trails



# Reliable Audit Trails



**Inventory transactions  
that are properly  
supported, recorded,  
and posted**

Version 1.0

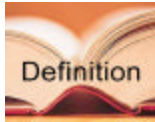
How to Prepare for an Audit of Inventory and OM&S

L2-28

Sufficient information must be available to track a transaction from its inception to its appearance on the financial reports and statements, and also from the financial reports and statements, back to the original source documents.

Audit trails track transactions that should be properly supported, properly recorded, and properly posted to the correct general ledger accounts. Auditors use this documentation to verify underlying accounting data and eventually form an opinion on the Department's financial statements.

Let's continue with a definition of audit trails.



## Inventory Audit Trails (cont.)



### What are audit trails?

**Audit trails are the various documents, journals, ledgers, worksheets, reports, and statements of transactions that are used to trace the original transaction forward to the summarized total, or from the summarized total backwards to the original transaction.**

Audit trails refer to the various documents, journals, ledgers, worksheets, reports, and statements of transactions that can be logically and easily traced from the original transaction forward to the summarized total, or from the summarized total backwards to the original transaction.

Audit trails document the processing of all transactions in and out of feeder systems and through major accounting systems, eventually to the financial statements. These transactions must be traceable in both directions. For example, a voucher should be traceable both forward and back. This will help prevent voucher fraud.

The auditors examine the annual financial statements during audits. They know that transactions must have specific documentation to support them, but if documentation is missing or inaccurate, it can lead the auditor to the wrong conclusion.

Let's discuss the requirements for inventory audit trails.



## Inventory Audit Trails (cont.)



**The DoDFMR, Volume 1, Chapter 9, Financial Records Retention, requires that adequate documentation be maintained for effective audit trails.**

**The audit trails enable the tracing or replicating of transactions from their source to the resulting record or report, and from the resulting record or report to their source.**

The DoDFMR, Volume 1, Chapter 9, states that a key test of the adequacy of an audit trail is whether tracing the transaction forward or backward will permit verification of a transaction amount recorded or reported.

Detailed proof is what auditors look for during reviews of entities' financial statements. It is important to understand what is required of you when an audit is being conducted of your Department's financial statements.

Let's look at inventory transactions supported by source documentation.



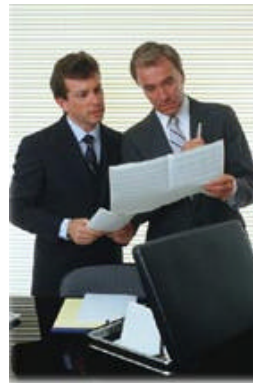


## Inventory Audit Trails (cont.)



**Inventory transactions supported by source documents include:**

- **Purchases**
- **Sales**
- **Transfers**
- **Disposals**



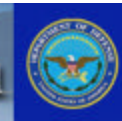
Audit trails are made up of documents that support inventory transactions from purchases, sales, transfers, or disposals. Proper documentation includes forms such as the SF 1449, DD Form 1348-1A, DD Form 250, DD Form 200, or DD Form 1155. The information on these forms should include a description of the item number, supplies/services, quantity ordered, unit, unit price, and the dollar amount.

Proper documentation is especially important for identifying potential excess inventory that may be available for reuse, transferred to another component, or disposed of.

Let's discuss tools used in supporting documentation.



## Inventory Audit Trails (cont.)



**Supporting documentation must follow the inventory item when:**

- It transfers to another activity
- It is traded, sold, or disposed of through salvage or demolition



**NARA GRS: <http://www.archives.gov/records-mgmt/ardor>**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L2-32

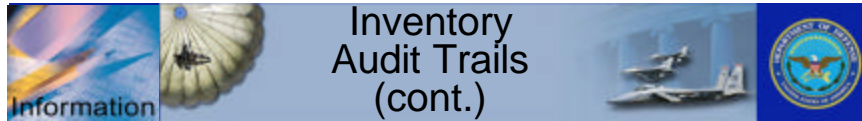
Supporting documentation is required for transactions in accordance with Volume 1, Chapter 9, of the DoDFMR and NARA.

An example of documentation following an inventory transfer is seen when the Military transfers management of a category of items to DLA. All supporting documentation must be transferred to DLA so they can maintain audit trails for the inventory items.

The NARA web site provides detailed guidance on records retention for every type of record maintained by the Department. You must be aware of the specific requirements for the documentation that you use.

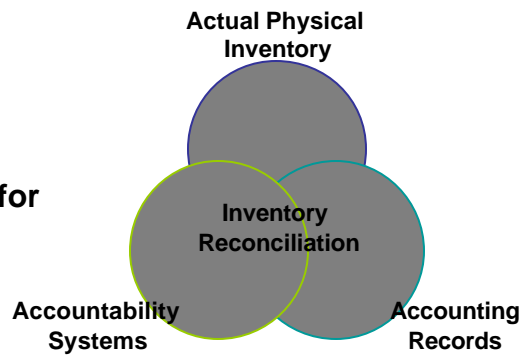
Documentation of audit trails must also yield accurate records in both accountability and accounting records.

Let's look at the inventory reconciliation process next.



## Inventory Reconciliation

- **Physical quantity**
- **Location**
- **Unit cost**
- **Properly accounted for**



Version 1.0

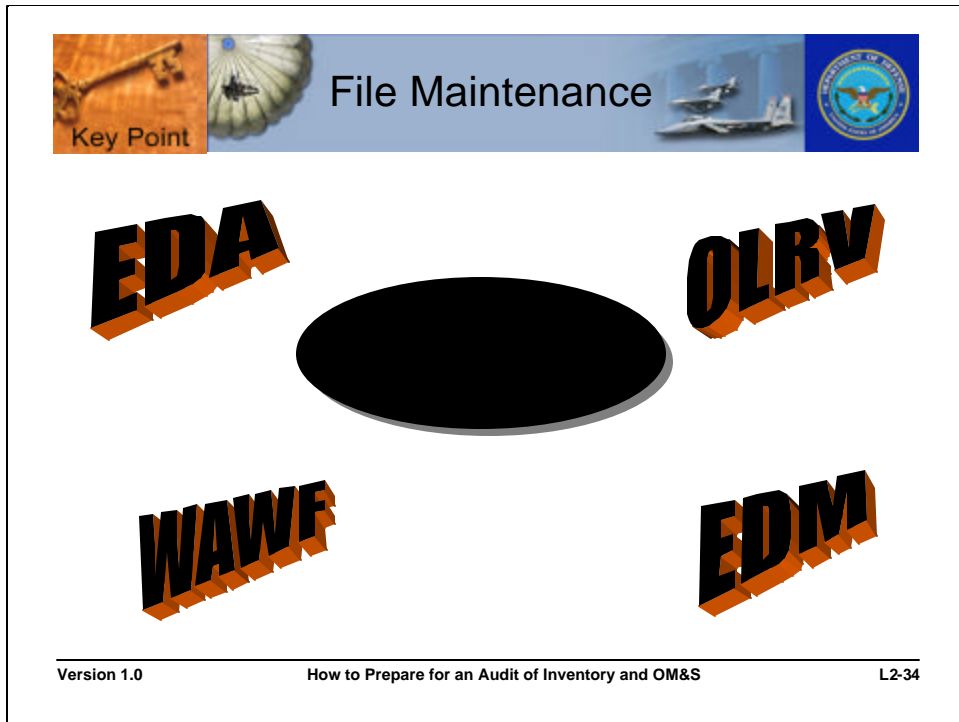
How to Prepare for an Audit of Inventory and OM&S

L2-33

In addition to verifying the source documentation such as DD Forms 250, DD Forms 1155, SF Forms 1449, and invoices, the auditors may also conduct a limited physical inventory of the property.

They may verify the physical quantity of items, unit cost, location, and also make sure they are properly accounted for in the inventory records. These are steps in an audit process of which you must be aware.

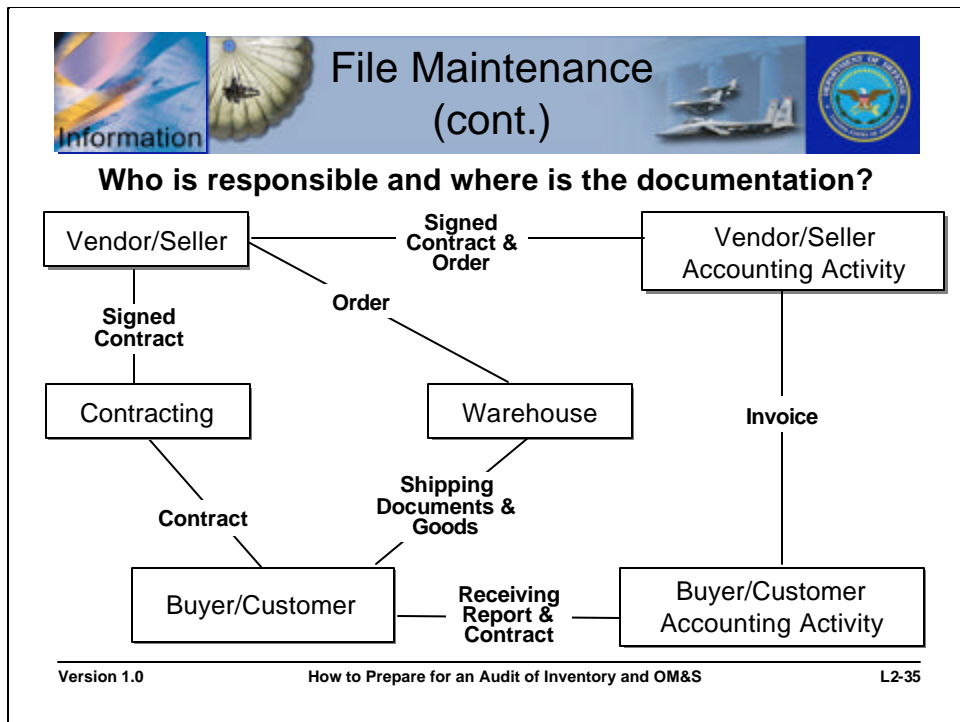
Let's discuss how to maintain source documentation electronically.



Maintenance or availability of supporting documentation doesn't always mean that there has to be hard copies to support all transactions. Applications such as EDA, EDM, OLRV, and Wide Area Workflow (WAWF) are used to retain electronic copies of supporting documentation and to expedite research by using query functions.

These tools provide management and auditors with a better view of business operations by providing forms and reports of record retention, and retrieval.

Let's look at who is responsible for retaining various types of documentation.

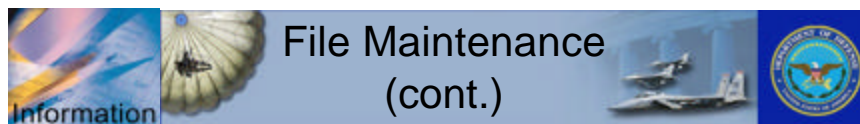


A Point of Contact (POC) in each organization should be aware of the location of the supporting documentation and files that contain and support the underlying accounting data for the function they support. The auditors will verify the different transactions with the related supporting documentation.

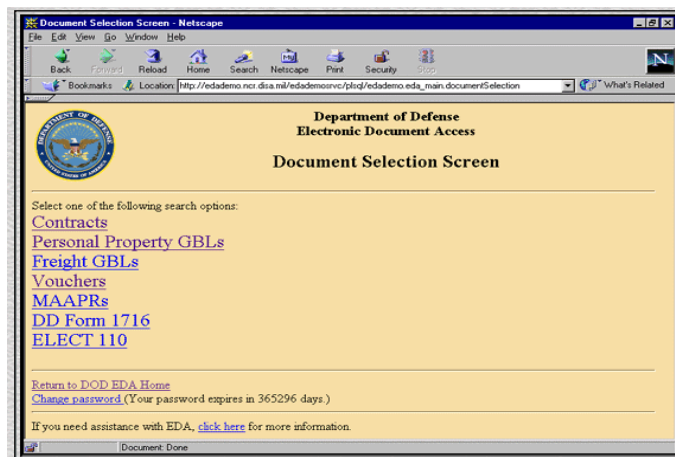
For example, consider a purchase of inventory items from a vendor, as shown in this diagram. In order to make a payment, you need a contract, invoice, and receiving report. The auditors (auditing the buyer) must verify the contract with contracting, the invoice with the seller's accounting activity, and the receiving report with the buyer's receiving and accounting activities.

Shipping documents can be verified at the warehouse since they are issued with the goods to the customer. Flowcharting the processes used will enhance your understanding of the entire operation. It will also help the auditors to see all the processes involved more clearly and provide a trail of supporting documentation.

Let's discuss where documentation is maintained.



## Electronic Document Access (EDA)



Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L2-36

EDA allows your entity to store and retrieve documents electronically, and it reduces the need for printing, mailing, and filing paper documents. Documents available through EDA include post-award contracts, contract modifications, personal property and freight bills of lading, payment vouchers, contract deficiency reports, summaries of voucher line data, material acceptance and accounts payable reports, and government transportation requests.

EDA authorization offers a paperless certification, which is based upon accuracy and timeliness, providing the Defense Finance and Accounting Service (DFAS) payment technicians, DoD contract officers, procurement officers, program and financial managers, and transportation officers, with the ability to view and process documents without paper copies.

Let's look at OLRV.



## File Maintenance (cont.)



### On-Line Report View (OLRV)

- **Generates electronic reports that can be viewed by users on their desktops with a web browser**
- **Creates report templates in various formats such as Microsoft Excel and dBase**
- **Report templates are published on an OLRV server**
- **End-users can manipulate and analyze data**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L2-37

OLRV is the DFAS standard paperless report initiative. OLRV takes data (reports) normally printed from a system such as the STANFINS and generates an electronic report that can be viewed by users on their desktops with a web browser.

End users can also manipulate and analyze data. Behind the scenes, DFAS creates report templates, based on customer needs in various formats such as Microsoft Excel and dBase, which are then published on an OLRV server.

The DFAS Accounting Service Business Line (ASBL) is the primary user of OLRV, followed by the Military and Civilian Pay, and Commercial Pay Services. Each business line has a designated OLRV workgroup representative to help manage OLRV.

One note of caution though: OLRV provides reports which may or may not necessarily be supporting documentation. These reports may facilitate an audit by allowing an auditor to trace a document down; however, just know that auditors may need more than what OLRV can provide.

Let's look at another software tool called WAWF.



## File Maintenance (cont.)



### Wide Area Workflow (WAWF)

- **Creates and shares electronic invoice and receiving report information**
- **Enables vendors to submit and track invoices and receipt/acceptance documents**
- **Enables government to electronically view and process vendors' documents and perform receipt and acceptance**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L2-38

WAWF is a software application that was developed to electronically create and share invoice and receiving report information. It allows vendors to submit and track their invoice and receipt/acceptance documents.

This system also enables the government to electronically view and process data and perform government receipt and acceptance from vendors and receipt certification from government personnel.

Let's examine EDM.





## File Maintenance (cont.)



### **Electronic Document Management (EDM)**



- **Converts hardcopy payment documentation into electronic documents**
- **Composed of three different technologies that include imaging, electronic foldering, and workflow**

For example at DFAS, EDM was created to convert hardcopy payment documentation into electronic documents. It provides a means for these electronic documents to be routed through the Finance Directorate and entered into the various Vendor Pay systems.



EDM is composed of three different technologies that include imaging, electronic foldering, and workflow. Together they form a system that manages information without paper.

The preferred method to input receipt documents into EDM is facsimile. Once the faxed documents are received, the EDM Auto fax feature processes them into EDM. When input manually, they are cataloged and prepared and then scanned.

In preparation for or response to an audit, you may use EDM to pull information from the audit folders, so let's discuss audit folders next.



## Audit Folders



### Audit Folders

- **Provide information that auditors need**
- **Provide direction to the auditors**
- **Assist management in directing the audit**

---

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L2-40

To save time and audit cost, it is important to develop a method of organizing folders so that all assertion data can be retrieved and reviewed quickly and efficiently. Separate audit folders should be created for most, if not all, of the items the auditor will need to see and contain the following types of information:

- description of the overall process with control points (checklists, log sheets, and reconciliations)
- systems used (names, queries auditors may need, maps of each system, and Disbursing Station Symbol Numbers (DSSNs) used)
- reports used (type of report (manual or electronic)), description of data, how they tie into inventory, print out of files, and location where stored
- outgoing reports produced (type, how they tie into inventory, print out of files and location where stored)
- perceived audit weaknesses (identified weaknesses) and planned corrective actions.

Next, let's look at how the Army is using audit folders.



## Audit Folders (cont.)



**Develop a method of organized folders.**

**Army Financial Statement Assertions are on the DFAS ePortal.**

**FBWT Assertion Packet** [Up To Army General Fund](#)

OSD requires that for an entity to assert that a line or statement is auditable, the entity must provide an assertion letter and create an assertion packet. The packet must include all items required in the FBWT Assertion Packet Checklist. See the OSD "Financial Improvement Initiative Business Rules" Memo dated June 23, 2004. This folder address all the requirements of the OSD Memo.

**IN - Army Financial Statement Assertions/Balance Sheet/Fund Balance with Treasury/Army General Fund/FBWT Assertion Packet**

**Subfolders**

- FBWT Assertion Folders** DFAS-IN documented all of the FBWT business processes in the Process Analysis Document (PAD) and various audit folders. Attachment B of the Assertion Packet lists all of the folders. This folder ...
- FBWT Audits** Provides a copy of all the AGF FBWT Audits from FY 1999 - FY 2004. The solution for all of the deficiencies included in the audits is included in the FBWT Assertion Packet.

**Files** Sorted By: Name Ascending

- 00 FBWT Assertion Folder Cover.pdf** (86 KB)  
Author: DFAS/BROOK.AVEY First uploaded: 12/10/04 12:31 PM  
Last checked in: 12/10/04 12:31 PM Checked in by: DFAS/BROOK.AVEY  
Actions: [View File Details](#) | [Download](#) | [Versions](#)
- 01 FBWT Assertion Packet Table of Contents.doc** (52 KB) Table of Contents for the FBWT Assertion Packet  
Author: DFAS/BROOK.AVEY First uploaded: 11/19/04 1:56 PM  
Last checked in: 12/14/04 1:16 PM Checked in by: DFAS/BROOK.AVEY

Version 1.0

How to Prepare for an Audit of Inventory and OM&S



L2-41

Audit folders may be established on the Intranet so that audit trails are facilitated by easy access to both electronic files and/or memorandum indicating the hard copy location. In this example of an Intranet audit folder, the Army Financial Statement Assertions are located on the DFAS ePortal. Folders are set up for each of the affected financial statements. Within each statement folder, subfolders are set up for various line items such as Accounts Payable, Cash, Fund Balance with Treasury (FBWT), and others.



Each line item is further subdivided by fund or other applicable division. In the case of FBWT, it is subdivided into folders for the Army General Fund and the Army Working Capital Fund. Once the fund is selected, a subfolder containing FBWT assertion packet information may be opened. Subfolders in this area are divided into assertion or audit files. Assertion files include a table of contents file and numbered files that are labeled by section and title. Audit files are labeled by agency and title or report number of the audit reports.

Not only are auditors interested in gaining access to evidentiary matter through such means as audit folders, they also will ensure inventory is correctly valued.

Audit folders may contain supporting documentation for valuation or, as previously indicated, the audit folder may be a link to the hard copy source. But either way, you must know what's acceptable to the auditor; so let's learn about methods of valuation next.

## Methods of Inventory Valuations

### OUSD(C) Memorandum (excerpt), July 6, 2001, Inventory Valuation

**SUBJECT:** Approved Valuation Method for Inventory Held for Sale and Operating Materials and Supplies

The Department of Defense legacy systems were not designed to maintain historical cost valuation for inventory held for sale and operating materials and supplies in compliance with generally accepted accounting principles. Despite significant efforts to achieve an auditable financial presentation using available data, the current approach, latest acquisition cost adjusted for holding gains and losses, does not provide meaningful financial accounting information and has failed to gain audit acceptance.

The use of the moving average cost inventory valuation method should provide the best value to the Department, based on the Components' analyses of the Department's material management policies and processes. The Department of Defense Financial Management Regulation, DoD 7000.14-R, Volumes 4 and 11B, will be modified to establish moving average cost as the Department's standard valuation method for the financial statement presentation of inventory and operating materials and supplies. The Military Departments and the Defense Agencies may request exceptions to this valuation method for their financial statements from the Director, Accounting Policy. Each Military Department and Defense Agency responsible for material amounts of inventory or operating materials and supplies shall implement the moving average cost valuation method as systems are renovated or replaced. Alternative valuation methods may continue to be used for other functional requirements (e.g., logistics, procurement,

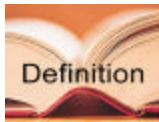
Version 1.0
How to Prepare for an Audit of Inventory and OM&S
L2-42

The memorandum, Approved Valuation Method for Inventory Held For Sale and Operating Materials and Supplies, pertains to inventory valuation, and is shown in Appendix D, was published by the Office of the Under Secretary of Defense, Comptroller (OUSD(C)) on July 6, 2001.

The Department announced that the preferred valuation method for Inventory Held for Sale and OM&S. A determination was made that LAC, Adjusted for Holding Gains and Losses method, did not provide meaningful financial accounting information and failed to gain audit acceptance. It determined that the MAC inventory valuation method should provide the best value to the Department, based on the Components' analyses of the Department's material management policies and process.

The DoDFMR, Volumes 4 and 11B, will be modified to establish MAC as the Department's standard valuation method for the financial statement presentation of inventory. This policy was effective upon receipt of the memorandum.

Let's discuss the definition of the MAC method of valuing inventory.



## Methods of Inventory Valuations (cont.)

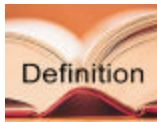


### **What is Moving Average Cost (MAC)?**

**MAC is an inventory costing method under which an average unit cost is computed after each acquisition by adding the cost of the newly acquired units to the cost of the units of inventory on-hand and dividing this figure by the new total number of units.**

The Moving Average Cost valuation method requires a perpetual inventory valuation system. This is one in which the inventory quantities and values for all purchases and issues are recorded directly in the inventory system as they occur. Perpetual inventory system balances are verified by means of periodic physical counts. The physical inventory may be accomplished by a revolving physical count, in which segments of inventories are counted at different times.

Let's look at how to use MAC properly.



## Methods of Inventory Valuations (cont.)



### Steps to Accurately Prepare MAC

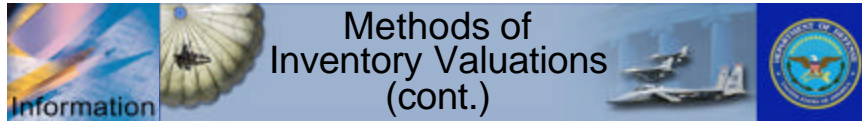
- **MAC in general**
- **Perpetual inventory system**
- **Baseline items on-hand using MAC**
- **Process baseline and all future items using MAC**

In order to develop an accurate inventory, you must understand MAC as we just defined it. Next you must have a perpetual inventory system. Without the appropriate system it is impossible to create an accurate inventory valuation. Once you have a perpetual inventory system, you must baseline your inventory on-hand using the MAC valuation method. This creates a valid bottom line for the next step, in which all future inventory items must be valued using MAC.

A perpetual inventory system uses transactions to adjust on-hand balances to coincide with physical activity that occurs. A perpetual inventory system is one in which the inventory quantities and values for all purchases and issues are recorded directly in the inventory system as they occur. Perpetual inventory system balances are verified by means of periodic physical counts. This is a system of inventory accounting in which both the revenues from sales and the cost of merchandise sold are reported each time a sale is made, so that the records continuously disclose the amount of the inventory on-hand.

This seems simple, but there are those who have skipped the baseline MAC valuation and therefore do not have a valid perpetual valuation.

Let's examine 13 steps for inventory baseline valuation.



**There are 13 steps for inventory baseline valuation that provide guidance on the verification of physical existence of quantities of inventory.**

- |                                      |  |
|--------------------------------------|--|
| 1. Inventory items reviewed          | 8. Values of like items  |
| 2. Acquisition histories in database | 9. Corroborate repair costs  |
| 3. Baseline historical values        | 10. Repair data as alternative valuation   |
| 4. Validate supporting documentation | 11. Materiality to financial statements or catalog price                               |
| 5. Validate reported quantities      | 12. Probability of items sold or issued for use or baselined to a net realizable value |
| 6. Like items information            | 13. Alternative valuations   |
| 7. Alternative correlations          |  |

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L2-45


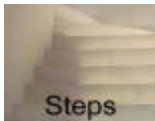
The Department recognizes 13 steps for inventory baseline valuation. Their purpose is to help accurately verify the physical existence of inventory quantities.

These 13 steps are primarily predicated on an iterative and information gathering process, utilizing data in stock control, logistics, and inventory accounting systems that support and maintain reportable on-hand inventory.



However, in order for baseline valuations to have audit creditability, quantities used in the baseline valuations must be complimented by Existence and Completeness (of the management assertions discussed earlier) testing of actual on-hand inventory quantities using methods approved by GAAP.

Recall our earlier discussion about audit folders. The items shown here are ones that would go in such audit folders.

Next, let's discuss the first three steps shown on the slide.



## Methods of Inventory Valuations (cont.)



### Baseline Valuation, Step 1

**Review all managed or held inventory and OM&S items with National Stock Numbers (NSNs), Manufacturer's part numbers, or other identifying item numbers used in supporting inventory stock/logistics systems.**

### Baseline Valuation, Step 2

**Determine and include in the database, all available acquisition histories related to items being baselined which had reported on-hand quantities.**

### Baseline Valuation, Step 3

**Determine initial baseline historical values for those items with reported on-hand quantities for the most recent acquisition histories.**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L2-46

When determining the baseline, complete only those steps applicable to your agency's inventory needs.

In Step 1, review all managed or held inventory and OM&S items with National Stock Numbers (NSNs), Manufacturer's part numbers or other identifying item numbers used in supporting inventory stock/logistics systems.

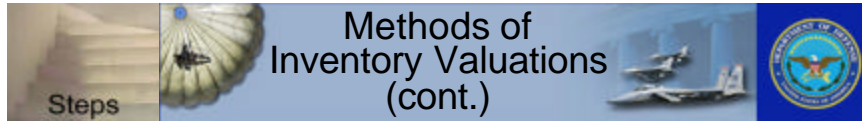
Determine the items that have quantities reported as on-hand by the supporting systems, and verify the accuracy and integrity of data on the supporting systems that compute and maintain the quantities. In addition, establish a workable database for all items being baselined that have reported on-hand quantities.

In Step 2, determine and include in the database, all available acquisition histories related to items being baselined which had reported on-hand quantities. The acquisition history includes information and data elements from supporting logistics or management systems that indicate procurement, such as last representative buy quantity and price.

In Step 3, determine the initial baseline historical values for those items with reported on-hand quantities for the most recent acquisition histories. Use the next most recent acquisition data until all reported on-hand quantities being baselined are identified with an initial historical baseline value.

Let's continue with Steps 4 and 5.





### **Baseline Valuation, Step 4**

**Validate reported on-hand quantities with acquisition histories to supporting documentation.**

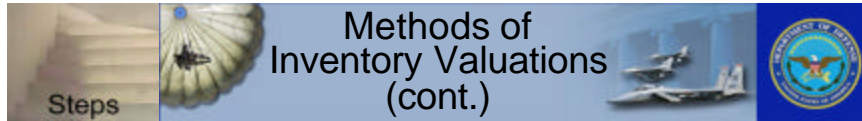
### **Baseline Valuation, Step 5**

**Validate reported on-hand quantities with acquisition histories but no supporting contract information to corroborative information, such as commercial sources or other similar and multiple acquisition histories.**

In Step 4, validate the reported on-hand quantities with acquisition histories to supporting documentation. Determine the availability of source documents, such as hard copy contracts, contract data repositories, contract data databases, or other supporting documentation, such as delivery orders, purchase orders, and receipt documentation.

In Step 5, validate the reported on-hand quantities with acquisition histories but no supporting contract information to corroborative information, such as commercial sources or other similar and multiple acquisition histories (for example, with similar dollar values). Convert multiple acquisition histories with no supporting contractual data to current year dollars.

Let's continue with Steps 6 and 7.



### **Baseline Valuation, Step 6**

**For reported on-hand quantities with acquisition histories but no supporting contract information and no acceptable corroborative information, determine the availability of corroborative information for like items.**

### **Baseline Valuation, Step 7**

**For reported on-hand quantities with no acquisition histories and no supporting contract information or corroborative information, determine alternative corroborative correlations, such as Standard Price (SP) comparisons to commercial price catalogs.**

Version 1.0

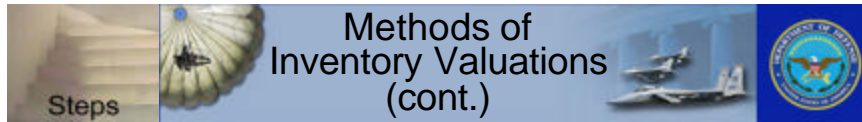
How to Prepare for an Audit of Inventory and OM&S

L2-48

In Step 6, for reported on-hand quantities with acquisition histories but no supporting contract information or no acceptable corroborative information, determine the availability of corroborative information for like items, such as items identified as interchangeable and substitutable.

In Step 7, for reported on-hand quantities with no acquisition histories and no supporting contract information or corroborative information, determine alternative corroborative correlations, such as Standard Price (SP) (less surcharge) comparisons to commercial price catalogs.

Let's continue with Steps 8 and 9.



### **Baseline Valuation, Step 8**

**For reported on-hand quantities with no acquisition histories and no supporting contract information or corroborative or alternative corroborative information, determine values of like items, as defined by item managers.**

### **Baseline Valuation, Step 9**

**For reported on-hand quantities with no acquisition histories and no acceptable supporting contract or corroborative information, determine actual repair costs incurred for on-hand quantities with repair histories as alternative corroborative information or as an alternative item valuation.**

Version 1.0

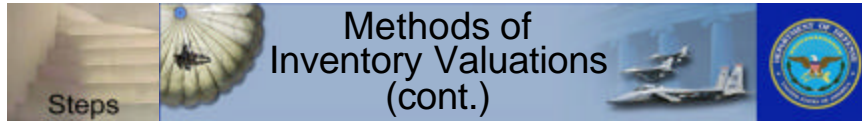
How to Prepare for an Audit of Inventory and OM&S

L2-49

In Step 8, for reported on-hand quantities with no acquisition histories and no supporting contract information or corroborative or alternative corroborative information, determine values of like items, as defined by item managers. In addition, use interchangeable or substitutable item values in Step 8 reported on-hand quantities when interchangeable/substitute items have supporting documentation or corroborative information.

In Step 9, for reported on-hand quantities with no acquisition histories and no acceptable supporting contract or corroborative information, determine repair histories as alternative corroborative information or as an alternative item valuation.

Let's continue with Steps 10 and 11.



### **Baseline Valuation, Step 10**

**For reported on-hand repairable item quantities found in Step 9 (with no acquisition histories and no procurement or corroborative information) that cannot be corroborated to repair data, use the repair cost as the alternative baseline valuation.**

### **Baseline Valuation, Step 11**

**Determine the materiality to the financial statements of any reported on-hand quantities that have not been assigned a supportable or corroborative baseline value subsequent to the completion of Steps 1 through 10.**

Version 1.0

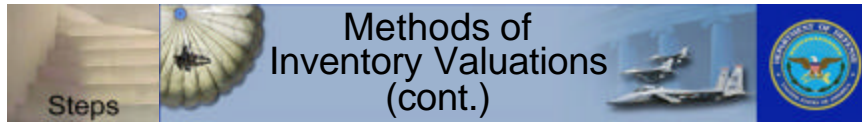
How to Prepare for an Audit of Inventory and OM&S

L2-50

In Step 10, for reported on-hand repairable item quantities found in Step 9 (with no acquisition histories and no procurement or corroborative information) that cannot be corroborated to repair data, use the repair cost as the alternative baseline valuation.

In Step 11, determine the materiality to the financial statements of any reported on-hand quantities that have not been assigned a supportable or corroborative baseline value subsequent to the completion of Steps 1 through 10. In general, if materiality relative to the total financial statement values is not significant, use the current catalog price in Step 11 (minus surcharges).

Let's continue with the final steps, 12 and 13.



### **Baseline Valuation, Step 12**

**Assess the probability of items being sold or issued for use, where there is no acquisition data, procurement data, repair data, or strong corroborative data.**

### **Baseline Valuation, Step 13**

**For items which represent material values and will potentially have continued demand, determine alternative valuations for any items not valued subsequent to Steps 1 through 12.**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L2-51

In Step 12, assess the probability of items being sold or issued for use, where there is no acquisition data, procurement data, repair data, or strong corroborative data. For items that have no demand history, support obsolete and retired weapons systems, or for which there is otherwise a remote chance of sale or issue, baseline the item with a zero value, unless item managers can provide reasonable evidence to the contrary.

In Step 13, for items which represent material values and will potentially have continued demand, determine alternative valuations for any items not valued subsequent to Steps 1 through 12. Alternative valuations include information based on expertise of item managers, Program Management Offices, budget programs for items in question, cost of engineering estimates, price deflators, or alternative databases. All alternative baseline valuations should be documented for audit purposes.

Let's summarize what we've learned in this lesson.



## Lesson Summary



- **Proper Source Documentation**
- **Inventory Audit Trails**
- **File Maintenance**
- **Audit Folders**
- **Methods of Inventory Valuations**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L2-52

In this lesson, you learned about the different types of supporting documentation such as contracts, invoices, receiving reports, and various types of SF and DD forms.

We discussed what constitutes an inventory and mentioned the applicable guidance in the DoDFMR. We also discussed details on inventory for sale, how it is valued, what activities maintain inventory, and the types of items found in inventories. Then we discussed the flow of inventory transactions and their importance to you and the Department. We talked about the five categories of management assertions and their relationships to the financial statements.

We talked about the importance of establishing audit trails for inventory transactions and audit folders for source documentation. We described some of the tools used to retrieve documents and reports such as EDA, EDM, OLRV, and WAWF. And finally, you learned about the OUSD(C) 2001 memorandum about the preferred method of MAC for valuing inventory and cost of goods sold and the 13 steps that are critical for inventory baseline valuation.

The following slide lists references available for additional information.



## References



**DoDFMR:** <http://www.dod.mil/comptroller/fmr>

**NARA GRS:** <http://www.archives.gov/records-mgmt/ardor/>

**DD Forms 250, 1155, and 1348-1A (form only):**

<http://www.dscc.dla.mil/Offices/packaging/forms.html>

**DD Form 1348-1A, details on form preparation procedures:**

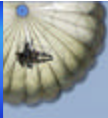

[http://www.asset-trak.com/catt/msl\\_irrd/faq/irrd.htm](http://www.asset-trak.com/catt/msl_irrd/faq/irrd.htm)

**SF 1449:**



<http://www.arnet.gov/far/current/pdf/FAR.book.pdf>

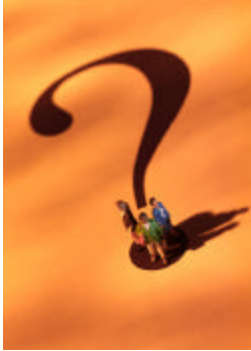
**DD Form 250 Instructions:**

[http://www.acq.osd.mil/dpap/dars/dfars/html/current/appendix\\_f.htm](http://www.acq.osd.mil/dpap/dars/dfars/html/current/appendix_f.htm)



# Questions





Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L2-54

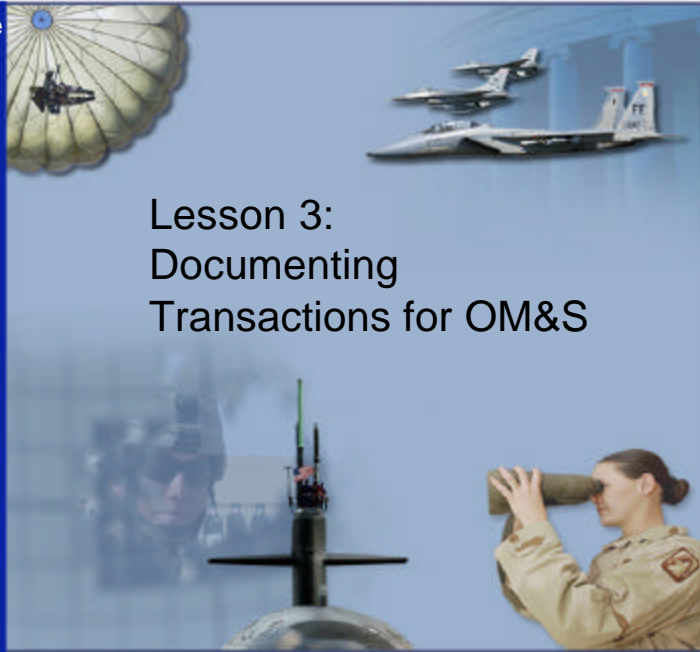
Before we move on to Lesson 3, Documenting Transactions for OM&S, do you have any questions on the material covered in this lesson?



How to Prepare  
for an Audit of  
Inventory and  
OM&S



## Lesson 3: Documenting Transactions for OM&S



In Lesson 3, we further clarify the distinction between inventory and Operating Materials and Supplies (OM&S). We explore how to properly identify adequate supporting documentation for OM&S, the importance of the source documentation, and the methods of valuing OM&S.

Let's discuss the lesson objectives.



## Lesson Objectives



**Upon successful completion of this lesson, you will be able to:**

- **Identify adequate operating material and supplies (OM&S) supporting documentation**
- **Explain how to value OM&S**

This lesson describes how to properly identify adequate types of supporting documentation for OM&S and help you understand the importance of this source documentation and the audit trails it creates.

It will explain the importance of establishing procedures for maintaining documentation in preparation for management assertions.

This lesson will describe the importance of file maintenance and non-financial feeder systems, and how to properly value OM&S.

Let's discuss the lesson topics.



## Lesson Topics



**This lesson contains the following topics:**

- **Proper Source Documentation**
- **OM&S Audit Trails**
- **File Maintenance**
- **Audit Folders**
- **Methods of OM&S Valuations**
- **Differences between Inventory and OM&S**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L3-3

In this lesson, we define some of the important types of documentation such as contracts, invoices, receiving reports, Department of Defense (DD) forms, Standard Forms (SF), and the importance of this documentation in support of audits of OM&S. We discuss the five categories of management assertions: Existence or Occurrence, Completeness, Rights and Obligations, Valuation or Allocation, and Presentation and Disclosure.

We discuss the importance of audit trails and how to establish procedures to maintain the inventory files using tools such as Electronic Document Access (EDA), Electronic Document Management (EDM), and On-Line Report View (OLRV).

We also discuss how to establish audit folders so that source documentation is readily available to auditors. We provide information on how to value your OM&S using the Moving Average Cost (MAC).

Let's discuss some types of OM&S source documentation.



## Proper Source Documentation



### OM&S Source Documentation

- **Purchase Orders (Contracts)**
- **Receiving Reports**
- **Department of Defense (DD) Forms**
- **Standard Forms (SF)**

In this topic, we discuss proper supporting documentation or evidential matter for OM&S and how it is obtained from a variety of internal and external sources. This documentation must be available to the auditors during an audit.

At every point of the acquisition and/or sale of OM&S, there must be adequate supporting documentation. We will look at some of the specific source documents, along with showing a systems flow for OM&S transactions.

Let's continue with a discussion of the importance of source documentation.



## Proper Source Documentation (cont.)



### Importance of Documentation

- **Required by regulations**
- **Supports the financial statements**
- **Supports inventories**
- **Establishes an audit trail for purchases, sales, transfers, and disposal of OM&S**
- **Supports Journal Voucher (JV) adjustments**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L3-5

Supporting documentation or evidential matter for OM&S transactions, must be available to properly account for it. This documentation is required according to the Department of Defense Financial Management Regulation (DoDFMR), Volume 1, Chapter 9, and the National Archives and Records Administration (NARA).

The documentation supports the line items on the Balance Sheet, such as the Inventory and Related Property, that includes all related OM&S items. The contracts, invoices, and various types of DD forms support the transfer or disposal of items.

Journal Vouchers (JVs) are input to update the amounts on the Balance Sheet for OM&S Held for Use, Held for Repair, and Excess, Obsolete, and Unserviceable to balance with the specific Departments' records. The balance is adjusted to account for transfers in and out, losses, consumption, and new acquisitions. Also, an allowance for Excess, Obsolete, and Unserviceable inventory is input which reduces its value to zero, the expected net realizable value (NRV).

Next we take a look at who maintains OM&S Held for Use.



Proper Source  
Documentation  
(cont.)



**Who maintains OM&S Held for Use and what is their mission?**

**Logistics functional areas, within the Department of Defense (DoD), are authorized to procure items as the need arises.**

**<http://www.dod.mil/comptroller/fmr/>**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L3-6

Logistics functional areas maintain that OM&S are defined in the Department of DoDFMR, Volume 4, Chapter 4. Items associated with the category OM&S, Held for Use, should not be drawn from the source until the need arises. If OM&S are purchased from commercial sources, they should not be purchased prior to their actual need.

These OM&S items should be valued at Historical Cost, and all purchase or production costs, such as processing and lead times, should be included in the costs.

Let's continue with the category OM&S Held for Repair.



## Proper Source Documentation (cont.)



### OM&S Held for Repair Category

- **Damaged items that require repair**
- **Reported at gross value less repair allowance**
- **Unserviceable items maintained as repairable until reparability is determined**

The OM&S Held for Repair category includes damaged items that require repair. These items are reported at their OM&S gross value less revaluation allowance and provide the OM&S net value for these items. In addition, OM&S items identified as unserviceable, but not yet reviewed to determine reparability, are reported as Held for Repair.

After an assessment has been conducted and the determination is made that the item is not economically feasible to repair, the item is reported as excess, obsolete, or unserviceable.

Let's look at that category of OM&S.



## Proper Source Documentation (cont.)



### **OM&S Excess, Obsolete, and Unserviceable**

- **Exceed expected demand**
- **No longer needed due to changes**
- **Damaged and cannot be consumed in operations**

The excess OM&S include materials and supplies that exceed expected demand in the normal course of operations and do not meet the criteria to be held in reserve for future use.


The obsolete OM&S are materials and supplies that are no longer needed due to changes in business operations, technology, or other factors.

The unserviceable OM&S are materials and supplies that are physically damaged and cannot be consumed in normal operations.


These OM&S items are valued at their estimated NRV. The difference between the carrying amount of the OM&S and their estimated NRV should be recognized as a loss and/or gain.

Let's talk about the types of documentation that are key in establishing audit trails for OM&S transactions. Let's begin with the DD Form 1155, Order for Supplies or Services.







Form



## Proper Source Documentation (cont.)

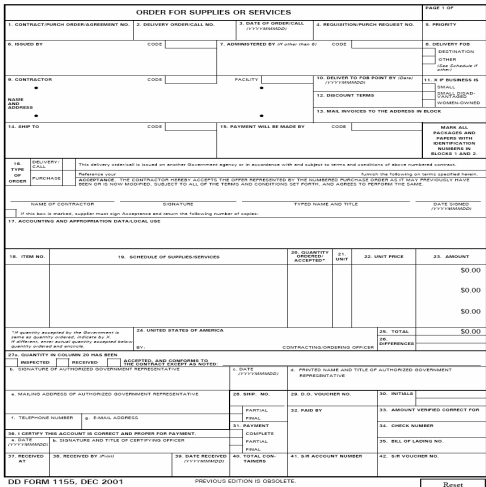



### DD Form 1155, Order for Supplies or Services

**Provides information on OM&S items ordered, received, and funds disbursed**

<http://www.dscc.dla.mil/Offices/packaging/forms.html>

Version 1.0      How to Prepare for an Audit of Inventory and OM&S      L3-9



The DD Form 1155, Order for Supplies or Services, is a multi-purpose form used by the Department as a requisition/purchase request contract, purchase order, delivery order, inspection/acceptance document, or for making disbursements. Let discuss some specific blocks on the DD Form 1155, particularly blocks 9, 15, 17-23, 26-28, 31, 32, and 36.

The reason we examined these specific blocks on the DD Form 1155 is to familiarize you with those blocks the auditor will examine during an audit. It should also be noted that the blocks we discussed are typical of those required of every Contract Line Item Number (CLIN) throughout the contract cycle. That is, from initial procurement, receipt of item, billing or invoicing, and payment.

Let's look at an SF 1449, Solicitation/Contract/Order for Commercial Items.



Form



## Proper Source Documentation (cont.)



### SF 1449, Solicitation/Contract/ Order for Commercial Items (Front Page)

Provides information on  
OM&S items ordered or  
received, and funds  
disbursed

[http://www.arnet.gov/far/  
current/pdf/FAR.book.pdf](http://www.arnet.gov/far/current/pdf/FAR.book.pdf)

SOLICITATION/CONTRACT/ORDER FOR COMMERCIAL ITEMS				OFFER TO COMPLETE BLOCKS 12, 17, 23, 24, & 30	
1. CONTRACT NUMBER		2. SOLICITATION NUMBER		3. SOLICITATION ISSUE DATE	
4. DATE		5. TELEPHONE NUMBER (For use only)		6. OFFER DUE DATE: LOCAL TIME	
7. FOR SOLICITATION INFORMATION CALL: NAME					
8. ISSUED BY		9. CODE		10. THIS ACQUISITION IS: <input type="checkbox"/> UNRESTRICTED OR <input type="checkbox"/> RESTRICTED	
11. DELIVERY FOR USE (SERIAL) FOR USES ONLY IS		12. DISCOUNT TERMS		13. THIS CONTRACT IS A: <input type="checkbox"/> RATED UNDER DPM 15 OR 20	
14. DELIVER TO		15. ADDRESS/STREET		16. METHOD OF SOLICITATION: <input type="checkbox"/> BIDDING <input type="checkbox"/> OPEN	
17. CONTRACTOR OFFICE		18. FACILITY		19. PAYMENT WILL BE MADE BY	
20. TELEPHONE NO.		21. CHECK IF REMITTANCE IS DIFFERENT AND PUT SUCH ADDRESS IN		22. SUBMIT TO OFFICE TO DISCLOSE DISCOUNTS IN BLOCK 13 UNLESS BLOCK 13 IS CHECKED	
23. ITEM NO.		24. SCHEDULE OF SUPPLIES/SERVICES		25. QUANTITY	
26. UNIT PRICE		27. UNIT PRICE		28. AMOUNT	
29. ACCOUNTING AND APPROPRIATION DATA		30. TOTAL AMOUNT (Per Item - Use Only)		31. TOTAL AMOUNT (Per Item - Use Only)	
32. SOLICITATION INCORPORATED BY REFERENCE FAR 12.111, 12.212.4, FAR 12.212.9 AND 12.212.11 ARE ATTACHED. ANSWER: <input type="checkbox"/> YES <input type="checkbox"/> NO		33. CONTRACTING UNDER INCORPORATED BY REFERENCE FAR 12.212.4, FAR 12.212.9 AND 12.212.11 ARE ATTACHED. ANSWER: <input type="checkbox"/> YES <input type="checkbox"/> NO		34. CONTRACTOR IS REQUIRED TO SIGN THIS DOCUMENT AND RETURN COPIES TO ISSUING OFFICE. CONTRACTOR AGREES TO PURSUE AND DELIVER ALL ITEMS SET FORTH ON STANDARD CONTRACT AND ON ANY ADDITIONAL SUPPLIES SUBJECT TO THE TERMS AND CONDITIONS EMPLOYED.	
35. SIGNATURE OF OFFEROR/CONTRACTOR		36. UNITED STATES OF AMERICA (SIGNATURE OF CONTRACTING OFFICER)		37. DATE SIGNED	
38. NAME AND TITLE OF ISSUING OFFICE (Type or print)		39. DATE SIGNED		40. NAME OF CONTRACTING OFFICER (Type or print)	
41. DATE SIGNED		42. NAME OF CONTRACTING OFFICER (Type or print)		43. DATE SIGNED	

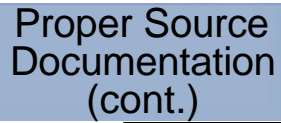
Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L3-10

This two-page SF 1449, Solicitation/Contract/Order for Commercial Items, is similar to the multi-purpose DD Form 1155. It can be used as a solicitation, contract, or order for commercial items, and provides information on OM&S ordered or received, or funds disbursed. This document is key in establishing audit trails for transactions, since it contains the names, dates, and other vital information that is used to trace each step of the acquisition and disbursement process. The specific authority for this form is the Federal Acquisition Regulation (FAR).

Let's look the back page of the SF 1449.



**Provides information on OM&S items ordered or received, and for funds disbursed**

[illegible]

**L3-11**

Let's look at an example of the DD Form 250.



## Proper Source Documentation (cont.)



# DD Form 250, Material Inspection and Receiving Report

**Provides complete and consistent accounting records, and must be maintained to support receipt of OM&S**

**<http://dsccl.dla.mil/Offices/packaging/forms.html>**

<b>MATERIAL INSPECTION AND RECEIVING REPORT</b>										Form Approved GSA GEN. REG. NO. 27	
<b>THIS REPORT IS TO BE COMPLETED AND FORWARDED TO THE ADVISE AGENCY.</b> <b>END THIS FORM IN ACCORDANCE WITH THE INSTRUCTIONS CONTAINED IN THE DFRS, APPENDIX F-401.</b>											
1. <b>PROCEEDING TO</b>		2. <b>NOTIFICATION DESCRIPTION</b>		3. <b>CODE NO.</b>		4. <b>MOUSE NO. DATE</b>		5. <b>FILE OF</b>		6. <b>ACCEPTANCE FORM</b>	
7. <b>SHIPMENT NO.</b>		8. <b>DATE SHIPPED</b>		9. <b>BL</b>		10. <b>DISCOUNT TERMS</b>					
11. <b>PRIME CONTRACTOR</b>		<b>CODE</b>		12. <b>ADMINISTERED BY</b>		<b>CODE</b>					
13. <b>SHIPPED TO</b>		<b>CODE</b>		14. <b>MARKED FOR</b>		<b>CODE</b>					
15. <b>ITEM NO.</b>		16. <b>STOCKCARD NO.</b> <small>(material description of shipment) (material number)</small>				17. <b>QUANTITY</b> <small>SHIPMENT</small>		18. <b>UNIT</b>		19. <b>UNIT PRICE</b>	
		20. <b>DESCRIPTION</b> <small>(material description of shipment) (material number)</small>								21. <b>AMOUNT</b>	
<b>21. CONTRACTOR QUALITY ASSURANCE</b> <b>a. ORIGIN</b> <input type="checkbox"/> <b>LOCAL</b> <input type="checkbox"/> <b>ACCEPTANCE OF LOCAL</b> <small>These items were made by or under the supervision and they conformed to the contract, without an initial based on an inspeping document.</small>						<b>b. DESTINATION</b> <input type="checkbox"/> <b>LOCAL</b> <input type="checkbox"/> <b>ACCEPTANCE of final items has</b> <small>been made by me or under my supervision and they conformed to the contract, without an initial based on an inspeping document.</small>					
<b>22. RECEIVER'S USE</b> <small>Quantities shown in column 17 were received in shipment and condition noted in remark.</small> <b>TYPE NUMBER</b> <b>REMARKS</b> <b>TYPE NAME</b> <b>REMARK ADDRESS</b>						<b>23. CONTRACTOR TO USE ONLY</b> <b>TYPE NAME</b> <b>ADDRESS</b> <b>REMARKS</b>					
<b>24. COMMERCIAL TELEPHONE NUMBER</b> <small>If quantity received by the Government is the same as quantity shipped, quantity by letter may be used.</small>						<b>25. COMMERCIAL TELEPHONE NUMBER</b> <small>If quantity received by the Government is the same as quantity shipped, quantity by letter may be used.</small>					

Version 1.0

## How to Prepare for an Audit of Inventory and OM&S

**L3-12**

The DD Form 250, Material Inspection and Receiving Report, shown here and in Appendix B, is basically a document that can be used by the government to assure contract compliance and by the contractor to submit an invoice. The contractor is responsible for preparing the DD Form 250, except for entries that an authorized government representative is required to complete.

This multi-purpose form is used as evidence of government contractor quality assurance at the origin or destination, evidence of acceptance at origin or destination, packing lists, receiving, shipping, contractor invoice, and commercial invoice support. The contractor may use its own invoice to bill the government, but it must make sure that it meets all of the requirements previously discussed. If it does not, this will only slow down payment. It may be easier to use the DD Form 250.

Specific guidance is located in the Defense Federal Acquisition Regulations (DFARS), Appendix F.

Let's take a look at an example of a DD Form 1348-1A.



## Proper Source Documentation (cont.)



### DD Form 1348-1A, Issue Release/Receipt Document

1. ZONE		2. FROM		3. QUANTITY		4. UNIT		5. CONDITION		6. STOCK NUMBER		7. DATE		8. TIME		9. LOCATION		10. RECEIVED BY		11. DATE RECEIVED		12. TOTAL PRICE		13. SHIP FROM		14. SHIP TO		15. MARK FOR		16. FREIGHT CLASSIFICATION NOMENCLATURE		17. ITEM NOMENCLATURE		18. TV CONT		19. NO CONT		20. TOTAL WEIGHT		21. TOTAL CUBE		22. RECEIVED BY		23. DATE RECEIVED			
24. DD FORM 1348-1A, JUL 01 EDITION		25. ISSUE RELEASE/RECEIPT DOCUMENT		26. SUPPLY (1348-1A)		27. ADDITIONAL DATA		28. PREVIOUS EDITION MAY BE USED		29. PERFORM (DLA)		30. UNIT PRICE		31. DOLLARS		32. CTS		33. UNIT PRICE		34. DOLLARS		35. CTS		36. UNIT PRICE		37. DOLLARS		38. CTS		39. UNIT PRICE		40. DOLLARS		41. CTS		42. UNIT PRICE		43. DOLLARS		44. CTS		45. UNIT PRICE		46. DOLLARS		47. CTS	

[http://www.asset-trak.com/catt/msl\\_irrd/faq/irrd.htm](http://www.asset-trak.com/catt/msl_irrd/faq/irrd.htm)

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L3-13

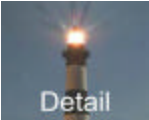

There are two web sites for the DD Form 1348-1A. The web site on the previous page gets you to the DLA web site and the form. The site on this slide shows specifics on how to complete it.

The DD Form 1348-1A is used for preparation of requisitions and material release orders (MROs).



When completing this form, these are some of the more important areas:

- Routing Identifier Code (RIC) for the item
- Unit of Issue
- Quantity for the Item
- Condition Code for the Item
- National Stock Number (NSN)
- Document Number.

Let's take a look at inventory gains and losses for investigation criteria and proper documentation.

## Proper Source Documentation (cont.)

**Criteria for a financial liability investigation of unresolved gains and losses:**

- **Sensitive items, like weapons**
- **Classified items**
- **Pilferable items when the unit price multiplied by the quantity are at least \$2,500**
- **Any OM&S loss potentially related to fraud, theft, or negligence**
- **Repetitive losses where their value is at least equal to the cost of the investigation**
- **Bulk petroleum**

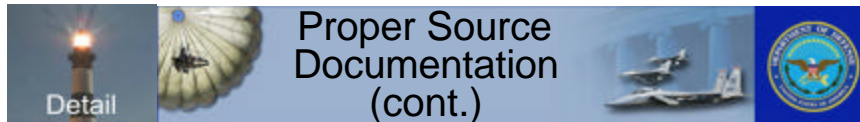
Version 1.0
How to Prepare for an Audit of Inventory and OM&S
L3-14

A financial liability investigation, sometimes referred to as a report of survey, is initiated on all unresolved OM&S discrepancies for each stock number that meets any of the following criteria:

- gains and losses of sensitive items, such as weapons designated as controlled items, regardless of dollar value
- gains and losses of classified items, regardless of dollar value
- gains and losses of pilferable items when the unit price multiplied by the quantity is equal to or greater than \$2,500 for each stock number
- any OM&S loss when there is an indication or suspicion of fraud, theft, or negligence
- repetitive losses where their value is at least equal to the cost of the investigation
- bulk petroleum when the loss exceeds the stated allowance.

Auditors will examine mission lost or stolen reports completed when items are missing from periodic or spot physical inventories. They will check the frequency of those counts and will determine the process by which the inventory is conducted. It's important that the person conducting it not have access to the records themselves. There cannot be any suspicion of personnel guessing. Inventories should be actual counts.

Let's look at some of the supporting documentation involved in this process.



### **Documentation of gains and losses:**

- **DD Form 200, Financial Liability Investigation of Property Loss**
- **SF 364, Supply Discrepancy Report**

**Source: DoDFMR Volume 12, Chapter 7, Financial Liability for Government Property Lost, Damaged, or Destroyed**

Version 1.0

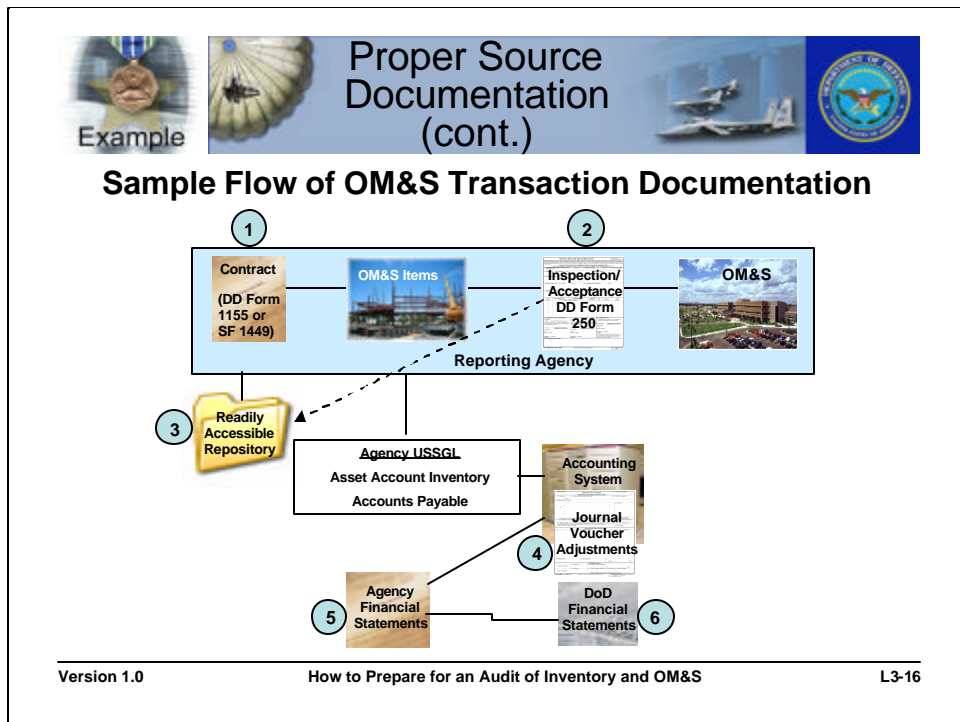
How to Prepare for an Audit of Inventory and OM&S

L3-15

The items we discussed on the previous slide are applicable to the DD Form 200, Financial Liability Investigation of Property Loss. That is, if an investigation is deemed appropriate, the DD Form 200 is the instrument to record the actions as they pass from official to official. Another important document that may be used in the process is the SF 364, Supply Discrepancy Report.

The SF 364, Supply Discrepancy Report, is the basic document required to support adjustment of property and financial inventory accounting records; information as a basis for claims against contractors; notification to shippers; visibility of preservation, packaging, packing, marking, and unitization discrepancies; required corrective actions; disposition instructions; and information for management evaluations.

Now let's look at an example of a transaction from the contracting stage through the time the transaction updates the Department's financial statements.

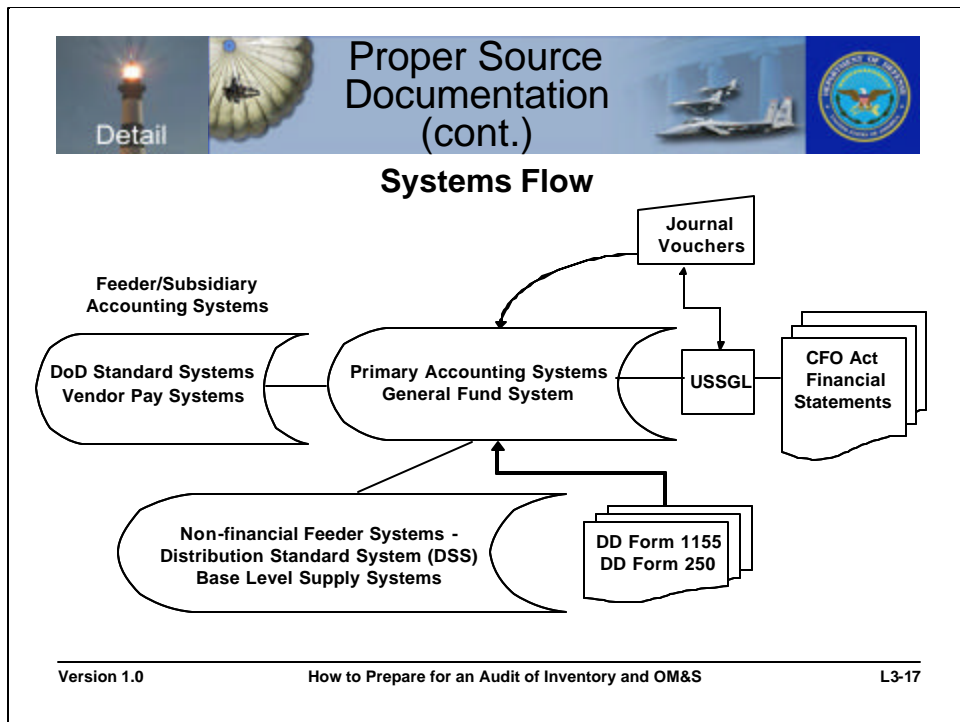


This diagram illustrates an OM&S transaction and its related source documentation from its initial contract through the updating of records on the activity's financial statements. The steps of the transaction are explained as follows:

1. A DD Form 1155 or an SF 1449 is used as a contract to purchase OM&S items from a vendor.
2. The same DD Form 1155, SF 1449, or DD Form 250 is used to record the receipt of OM&S items.
3. The contract, plus the receiving report, are placed in a readily accessible repository, like an audit folder.
4. Your accountants use JVs if there are any adjustments required to update the OM&S accounts.
5. When the OM&S is received on the appropriate form, the Agency's asset account is updated, and eventually the Balance Sheet item for Inventory and Related Property is updated.
6. Finally, when the Department's statements are consolidated, the agency's financial statements information is passed on to the DoD financial statements.

Let's summarize the flow of source documentation for OM&S transactions by looking at a specific example.



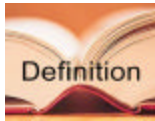


Source documentation forms the basis of the financial statements. When management approves the financial statements, they are making certain assertions about that documentation. Here we illustrate General Fund systems and processes that are affected by a typical purchase.

If we follow the example of the purchase of a transponder, we see that DD Form 1155 purchase data is entered into the United States Air Force (USAF) general fund General Accounting and Finance System (GAFS). Next, follow the Vendor Pay System interacting with the accounting system to update the receipt and invoicing information. Actual acceptance may be found in non-financial feeder systems that provide input to the accounting system. For example, our transponder may be entered into a supply system that retains certain non-financial information such as quantity, condition, or location of the missiles.

All these transactions support the posting of data to the United States Government Standard General Ledger (USSGL). JVs may be necessary to adjust automated inputs or may be required to enter data from systems that are not connected to the accounting system. Based upon the data input, the Department's financial statements are generated.

Now let's learn more about management's assertions.



## Proper Source Documentation (cont.)



### What are management assertions?

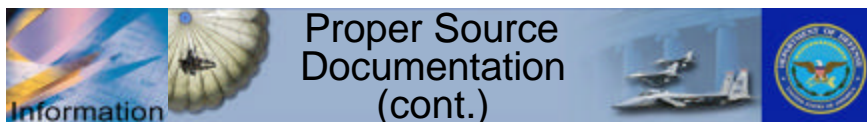
- **Representations by management that are embodied in financial statements components**
- **Representations that are either explicit or implicit**
- **Representations that are classified in five categories**

Management assertions are representations by management that are embodied in financial statements components. These assertions can be either explicit or implicit, and can be classified in five categories. These will be explained in some detail later in the lesson.

During an audit, management makes representations to the auditor, both oral and written, in response to specific inquiries or through the financial statements. Such representations from management are part of the evidential matter the independent auditor obtains. Evidential matter may be supported by documents created at the lowest level of the Department operations. It is important to note that auditors prefer clear, written, audit trails when reviewing evidentiary matter.

An auditor's work in forming an opinion on financial statements consists of determining if balances and notes presented in the Department's financial statements fairly represent the operations of the entity at the lowest levels (Statements of Auditing Standards 31, Evidential Matter). After obtaining evidential matter in support of financial statements assertions, the auditor develops the audit program and designs substantive tests for those assertions. These substantive tests are methods used to verify and validate the OM&S information.

Now let's look at the five broad categories of assertions.



### **Five Categories of Assertions**

- **Existence or Occurrence**
- **Completeness**
- **Rights and Obligations**
- **Valuation or Allocation**
- **Presentation and Disclosure**

Version 1.0

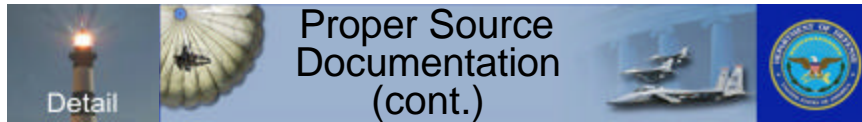
How to Prepare for an Audit of Inventory and OM&S

L3-19

There are five broad categories of assertions that are defined in the American Institute of Professional Standards (AIPS), Section 326, Evidential Matter. These five categories are:

- Existence or Occurrence
- Completeness
- Rights and Obligations
- Valuation or Allocation
- Presentation and Disclosure.

Let's discuss the first category, Existence or Occurrence.



### Five Categories of Assertions (cont.)

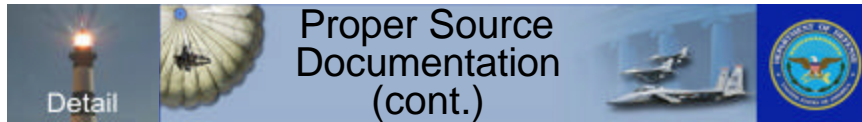
- Existence or Occurrence

The assertions about Existence or Occurrence address whether assets or liabilities of an entity exist at a given date and whether recorded transactions have occurred during a given period.

For example, management asserts that all of the OM&S included on the Balance Sheet, physically exists. The auditors develop substantive tests to verify this assertion made by management. The transactions are eventually traced back to specific supporting documentation, such as the DD Form 250 or DD Form 1155.

The auditors test this assertion through observing physical inventory counts, obtaining confirmation of OM&S at locations outside of the entity, or testing OM&S transactions between a preliminary physical inventory date and the Balance Sheet date. This is probably the biggest missing piece within the Department; that is, adequately documenting the results of the execution of the control of OM&S.

Let's discuss the next category, Completeness.



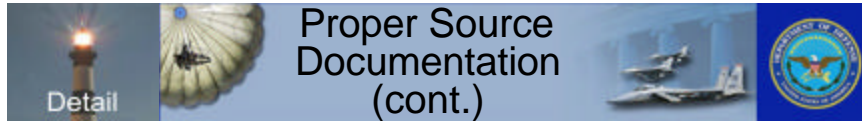
### Five Categories of Assertions (cont.)

- Existence or Occurrence
- **Completeness**

The assertion made by management about Completeness addresses whether all transactions and accounts that should be presented in the financial statements are included.

For example, the Department asserts that all of the items purchased for the OM&S are included in their financial statements. Based on this assertion by the Department, the auditor would conduct substantive tests to verify that those items and related transactions such as adjustments are reflected in the accounts shown in the financial statements.

Let's discuss the category, Rights and Obligations.



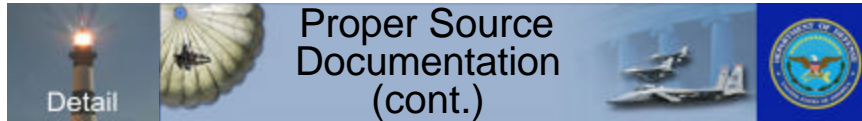
### Five Categories of Assertions (cont.)

- Existence or Occurrence
- Completeness
- Rights and Obligations

The assertion made by management about Rights and Obligations addresses whether assets are the rights of the Department and the liabilities are the obligations of the Department at a given date.

For example, the Department asserts that amounts of OM&S on the Balance Sheet represent the cost of the entity's rights to the OM&S and that the corresponding liabilities represent the obligation of the entity. The rights and obligations of one entity must not be commingled with the rights and obligations of another so as to confuse accurate recognition. A basic principal of financial statement reporting is that only one entity will recognize an asset or obligation at any given time.

Let's discuss the category, Valuation or Allocation.



### **Five Categories of Assertions (cont.)**

- **Existence or Occurrence**
- **Completeness**
- **Rights and Obligations**
- **Valuation or Allocation**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

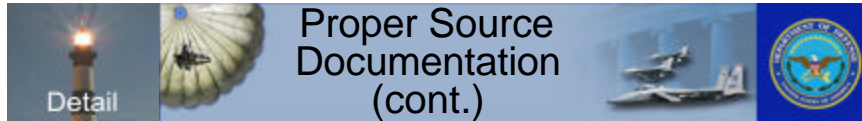
L3-23

The assertion made by management about Valuation or Allocation addresses whether the assets, liabilities, equity, revenues, and expenses have all been included in the financial statements, at the appropriate amounts.

For example, the Department asserts that the OM&S is recorded at Historical Costs (and property valued in accordance with the July 6, 2001, Memorandum (Appendix D), using the MAC inventory valuation method) and that costs are systematically allocated to the appropriate accounting periods. This memorandum is discussed in more detail later in this lesson. The auditor ensures that the OM&S was valued correctly and that the amount was authorized.

In addition, the Department asserts that the Accounts Receivable for sales of OM&S shown on the Balance Sheet is stated at the amounts billed and due.

Let's discuss the last category, Presentation and Disclosure.



### **Five Categories of Assertions (cont.)**

- **Existence or Occurrence**
- **Completeness**
- **Rights and Obligations**
- **Valuation or Allocation**
- **Presentation and Disclosure**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L3-24


The assertion made by management about Presentation and Disclosure addresses whether particular components of the financial statements are properly classified, described, and disclosed.

For example, the Department asserts that the amounts represented as OM&S – Held for Use in Note 9 to the Consolidated Balance Sheet are properly classified and described. The auditor analyzes the supporting evidential matter for the assertion. The auditor's review might include validating a DoD activity's OM&S inventory. The auditor would then verify that it is accounted for in Account 1511, OM&S – Held for Use.


Each of the five categories is important. From the Department's assertions, the auditor develops audit objectives and designs substantive tests.

Let's discuss the auditor's need for supporting documentation.







Example



## Proper Source Documentation (cont.)

### Prepared by Client (PBC) List

Item	Requested Document	Contact and Phone Number	Date Requested	Date Needed	Date Received
	<b>General</b>				
1.	Current version of accounting policies and procedures manual with policies and procedures for Cash and Fund Balance with Treasury, Accounts Receivable, Inventory, Property and Equipment, Advances, Accounts Payable, Accrued Liabilities, and Net Position				
2.	Trial Balance (electronic)				
3.	Access to General Ledger detail				
4.	Crosswalk of accounts to Financial Statement line items				
5.	Statement of intra-departmental elimination entries for FYXXXX				
6.	Management's Discussion and Analysis/Overview				
7.	Draft Financial Statements (electronic)				
8.	Draft Footnotes to F/S (electronic)				
9.	FYXX year-end SF-132s				
10.	Detail Schedule of Undelivered Orders (electronic)				
11.	Post-closing trial balances (electronic)				
12.	Complete Chart of Accounts (if other than SGL)				
13.	Schedule of summarized FACTS data				
14.	Organizational chart(s) of agency departments indicating key personnel and their responsibilities.				
15.	Minutes of the audit committee for the period under audit.				
16.	Annual Performance and Strategic Plans				
17.	Any corrective action plans related to prior year DOD IG, GAO, Defense Contract Audit Agency, internal audit or external audit report, if any				

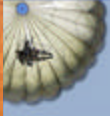

Version 1.0
How to Prepare for an Audit of Inventory and OM&S
L3-25

The auditor will need to verify the financial statement accounts by examining specific documentation that supports the numbers. During an audit entrance conference, you may receive a Prepared by Client (PBC) list from the auditors.



This PBC list provides a checklist of requested documents and is divided into five sections that include General, Compliance with Laws and Regulations, Accounts Receivable, Accounts Payable, and Inventory. It serves as a resource for the auditors to determine who they can obtain information and supporting documentation from. This list also provides a timeline and control sheet on the receipt of the information.

Part of the importance of documentation is knowing where it is or how to obtain it.


Let's talk about the importance of audit trails.



# OM&S Audit Trails



## Reliable Audit Trails



**OM&S transactions  
that are properly  
supported, recorded,  
and posted**

Version 1.0

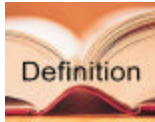
How to Prepare for an Audit of Inventory and OM&S

L3-26

Sufficient information must be available to track a transaction from its inception to its appearance on the financial reports and statements, and also from the financial reports and statements, back to the original source documents.

Audit trails track transactions that should be properly supported, properly recorded, and properly posted to the correct general ledger accounts. Auditors use this documentation to verify underlying accounting data and eventually form an opinion on the Department's financial statements.

Let's continue with a definition of audit trails.



## OM&S Audit Trails (cont.)



### What are audit trails?

**Audit trails are the various documents, journals, ledgers, worksheets, reports, and statements of transactions that are used to trace the original transaction forward to the summarized total, or from the summarized total backwards to the original transaction.**

Audit trails refer to the various documents, journals, ledgers, worksheets, reports, and statements of transactions that can be logically and easily traced from the original transaction forward to the summarized total, or from the summarized total backwards to the original transaction.

Audit trails document the processing of all transactions in and out of feeder systems and through major accounting systems, eventually to the financial statements. These transactions must be traceable in both directions.

The auditors examine the annual financial statements during audits. They know that transactions must have specific documentation to support them, but if documentation is missing or inaccurate, it can lead the auditor to the wrong conclusion.

Let's discuss the requirements for OM&S audit trails.



## OM&S Audit Trails (cont.)



**The DoDFMR, Volume 1, Chapter 9, Financial Records Retention, requires that adequate documentation be maintained for effective audit trails.**

**The audit trails enable the tracing or replicating of transactions from their source to the resulting record or report, and from the resulting record or report to their source.**

The DoDFMR, Volume 1, Chapter 9, states that a key test of the adequacy of an audit trail is whether tracing the transaction forward or backward will permit verification of a transaction amount recorded or reported.

Detailed proof is what auditors look for during reviews of entities' financial statements. It is important to understand what is required of you when an audit is being conducted of your Department's financial statements.

Let's look at OM&S transactions supported by source documentation.

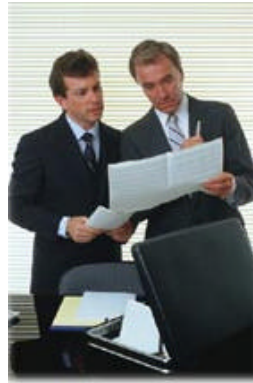


## OM&S Audit Trails (cont.)



**OM&S transactions supported by source documents include:**

- **Purchases**
- **Sales**
- **Transfers**
- **Disposals**



Audit trails are made up of documents that support OM&S transactions from purchases, sales, transfers, or disposals. The proper documentation can include forms such as the SF 1449, DD Form 1348-1A, DD Form 200, DD Form 250, or DD Form 1155. The information on these forms should include a description of the item number, supplies/services, quantity ordered, unit, unit price, and the dollar amount.

Proper documentation is especially important for identifying potential excess OM&S that may be available for reuse, transferred to another component, or disposed of.

Let's discuss tools used in supporting documentation.



## OM&S Audit Trails (cont.)



**Supporting documentation must follow the OM&S item when:**

- It transfers to another activity
- It is traded, sold, or disposed of through salvage or demolition



**NARA GRS: <http://www.archives.gov/records-mgmt/ardor>**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L3-30

Supporting documentation is required for transactions in accordance with Volume 1, Chapter 9, of the DoDFMR and NARA.

An example of documentation following an OM&S transfer is seen when the Military transfers management of a category of items to DLA. All supporting documentation must be transferred to DLA so they can maintain audit trails for the items.

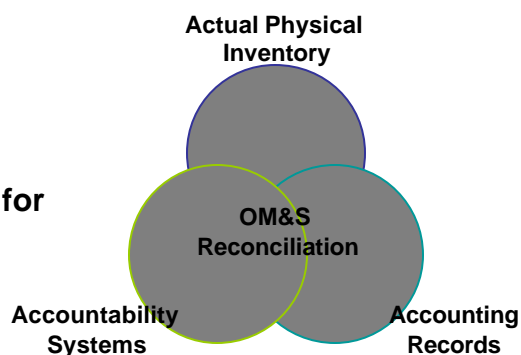
The NARA web site provides detailed guidance on records retention for every type of record maintained by the Department. You must be aware of the specific requirements for the documentation that you use.

Documentation of audit trails must also yield accurate records in both accountability and accounting records.

Let's look at the OM&S reconciliation process next.

## Inventory Reconciliation

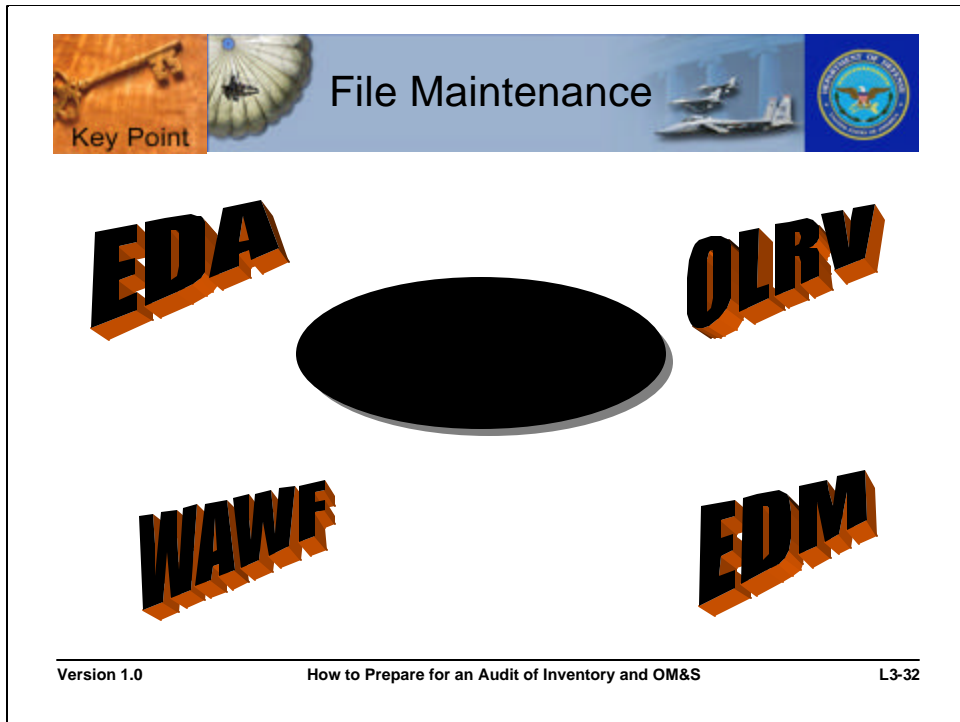
- **Physical quantity**
- **Location**
- **Unit cost**
- **Properly accounted for**



In addition to verifying the source documentation such as DD Forms 250, DD Forms 1155, SFs 1449, and invoices, the auditors may also conduct a limited physical inventory of the OM&S.

They may verify the physical quantity of items, unit cost, location, and also make sure they are properly accounted for in all records. These are steps in an audit process of which you must be aware.

Let's discuss how to maintain source documentation electronically.

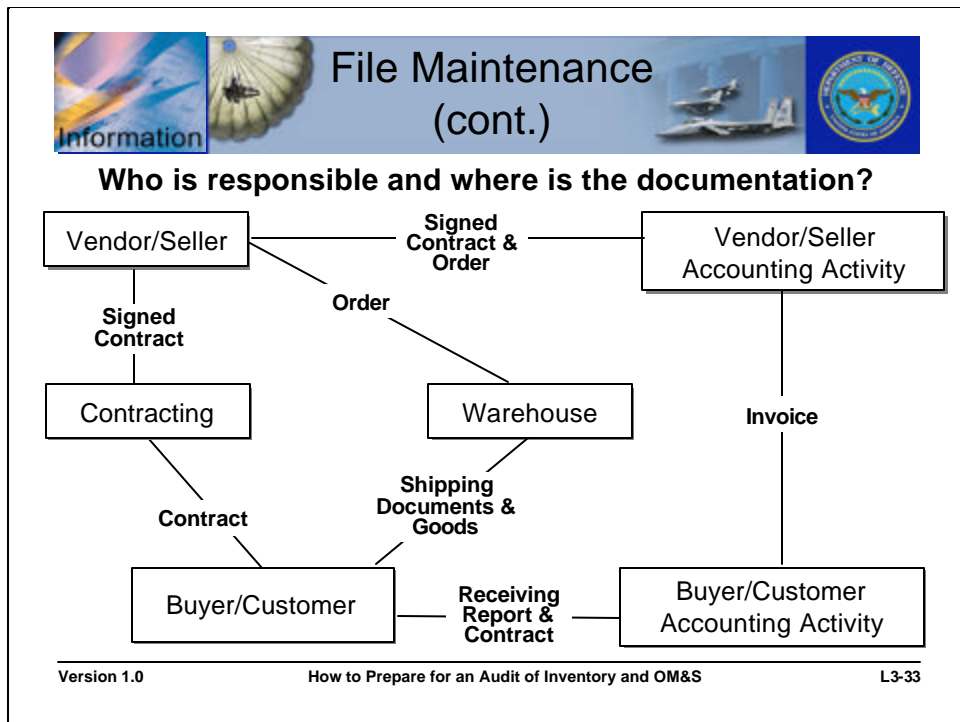


Maintenance or availability of supporting documentation doesn't always mean that there has to be hard copies to support all transactions. Applications such as EDA, EDM, OLRV, and Wide Area Workflow (WAWF) are used to retain electronic copies of supporting documentation and to expedite research by using query functions.

These tools provide management and auditors with a better view of business operations by providing forms and reports of record retention, and retrieval.

Let's look at who is responsible for retaining various types of documentation.



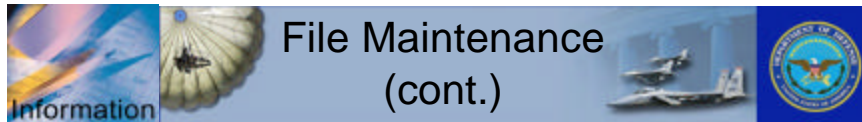


A Point of Contact (POC) in each organization should be aware of the location of the supporting documentation and files that contain and support the underlying accounting data for the function they support. The auditors will verify the different transactions with the related supporting documentation.

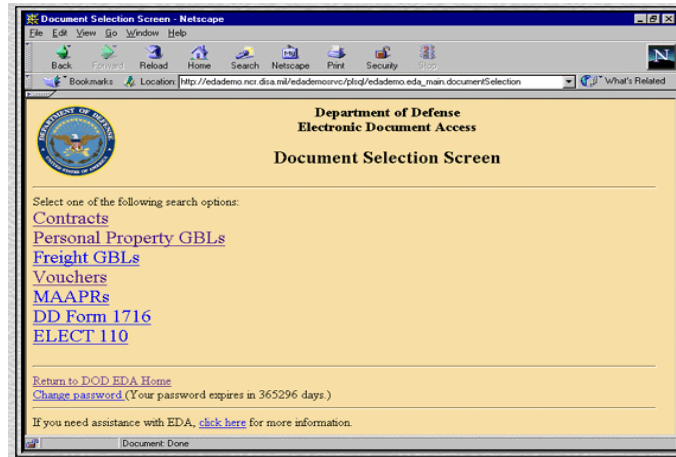
For example, consider a purchase of OM&S items from a vendor, as shown in this diagram. In order to make a payment, you need a contract, invoice, and receiving report. The auditors (auditing the buyer) must verify the contract with contracting, the invoice with the seller's accounting activity, and the receiving report with the buyer's receiving and accounting activities.

Shipping documents can be verified at the warehouse since they are issued with the goods to the customer. Flowcharting the processes used will enhance your understanding of the entire operation. It will also help the auditors to see all the processes involved more clearly and provide a trail of supporting documentation.

Let's discuss where documentation is maintained.



## Electronic Document Access (EDA)



Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L3-34

EDA allows your entity to store and retrieve documents electronically, and it reduces the need for printing, mailing, and filing paper documents. Documents available through EDA include post-award contracts, contract modifications, personal property and freight bills of lading, payment vouchers, contract deficiency reports, summaries of voucher line data, material acceptance and accounts payable reports, and government transportation requests.

EDA authorization offers a paperless certification, which is based upon accuracy and timeliness, providing the Defense Finance and Accounting Service (DFAS) payment technicians, DoD contract officers, procurement officers, program and financial managers, and transportation officers, with the ability to view and process documents without paper copies.

Let's look at OLRV.



## File Maintenance (cont.)



### On-Line Report View (OLRV)

- **Generates electronic reports that can be viewed by users on their desktops with a web browser**
- **Creates report templates in various formats such as Microsoft Excel and dBase**
- **Report templates are published on an OLRV server**
- **End users can manipulate and analyze data**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L3-35

OLRV is the DFAS standard paperless report initiative. OLRV takes data (reports) normally printed from a system such as the STANFINS and generates an electronic report that can be viewed by users on their desktops with a web browser.

End users can also manipulate and analyze data. Behind the scenes, DFAS creates report templates, based on customer needs in various formats such as Microsoft Excel and dBase, which are then published on an OLRV server.

The DFAS Accounting Service Business Line (ASBL) is the primary user of OLRV, followed by the Military and Civilian Pay, and Commercial Pay Services. Each business line has a designated OLRV workgroup representative to help manage OLRV.

One note of caution though: OLRV provides reports which may or may not necessarily be supporting documentation. These reports may facilitate an audit by allowing an auditor to trace a document down; however, just know that auditors may need more than what OLRV can provide.

Let's look at another software tool called WAWF.



## File Maintenance (cont.)



### Wide Area Workflow (WAWF)

- **Creates and shares electronic invoice and receiving report information**
- **Enables vendors to submit and track invoices and receipt/acceptance documents**
- **Enables government to electronically view and process vendors' documents and perform receipt and acceptance**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L3-36

WAWF is a software application that was developed to electronically create and share invoice and receiving report information. It allows vendors to submit and track their invoice and receipt/acceptance documents.

This system also enables the government to electronically view and process data and perform government receipt and acceptance from vendors and receipt certification from government personnel.

Let's examine EDM.



## File Maintenance (cont.)



### Electronic Document Management (EDM)



- **Converts hardcopy payment documentation into electronic documents**
- **Composed of three different technologies that include imaging, electronic foldering, and workflow**

For example at DFAS, EDM was created to convert hardcopy payment documentation into electronic documents. It provides a means for these electronic documents to be routed through the Finance Directorate and entered into the various Vendor Pay systems.



EDM is composed of three different technologies that include imaging, electronic foldering, and workflow. Together they form a system that manages information without paper.

The preferred method to input receipt documents into EDM is facsimile. Once the faxed documents are received, the EDM Auto fax feature processes them into EDM. When input manually, they are cataloged and prepared and then scanned.

In preparation for or response to an audit, you may use EDM to pull information from the audit folders, so let's discuss audit folders next.



## Audit Folders



### Audit Folders

- **Provide information that auditors need**
- **Provide direction to the auditors**
- **Assist management in directing the audit**

---

Version 1.0


How to Prepare for an Audit of Inventory and OM&S

L3-38

To save time and audit cost, it is important to develop a method of organizing folders so that all assertion data can be retrieved and reviewed quickly and efficiently. Separate audit folders should be created for most, if not all, of the items the auditor will need to see and contain the following types of information:


- description of the overall process with control points (checklists, log sheets, and reconciliations)
- systems used (names, queries auditors may need, maps of each system, and Disbursing Station Symbol Numbers (DSSNs) used)
- reports used (type of report (manual or electronic)), description of data, how they tie into inventory, print out of files, and location where stored
- outgoing reports produced (type, how they tie into inventory, print out of files and location where stored)
- perceived audit weaknesses (identified weaknesses) and planned corrective actions.

Next, let's look at how the Army is using audit folders.



**Best Practice**

## Audit Folders (cont.)



**Develop a method of organized folders.**

**Army Financial Statement Assertions are on the DFAS ePortal.**

FBWT Assertion Packet
Up To Army General Fund

OSD requires that for an entity to assert that a line or statement is auditable, the entity must provide an assertion letter and create an assertion packet. The packet must include all items required in the FBWT Assertion Packet Checklist. See the OSD "Financial Improvement Initiative Business Rules" Memo dated June 23, 2004. This folder address all the requirements of the OSD Memo.

**Subfolders**

- FBWT Assertion Folders** DFAS-IN documented all of the FBWT business processes in the Process Analysis Document (PAD) and various audit folders. Attachment B of the Assertion Packet lists all of the folders. This folder ...
- FBWT Audits** Provides a copy of all the AGF FBWT Audits from FY 1999 - FY 2004. The solution for all of the deficiencies included in the audits is included in the FBWT Assertion Packet.

Files	Sorted By:	Name	Ascending
<b>00 FBWT Assertion Packet Cover.pdf (16 KB)</b>			
<small>Author: DFAS/BROOK.AVEY First uploaded: 12/18/04 12:31 PM            Last checked in: 12/18/04 12:31 PM Checked in by: DFAS/BROOK.AVEY            Actions: <a href="#">View File Details</a>   <a href="#">Download</a>   <a href="#">Versions</a></small>			
<b>01 FBWT Assertion Packet Table of Contents.doc (52 KB)</b>			
<small>Table of Contents for the FBWT Assertion Packet            Author: DFAS/BROOK.AVEY First uploaded: 11/18/04 1:56 PM            Last checked in: 12/14/04 1:16 PM Checked in by: DFAS/BROOK.AVEY</small>			

Version 1.0
How to Prepare for an Audit of Inventory and OM&S
L3-39

Audit folders may be established on the Intranet so that audit trails are facilitated by easy access to both electronic files and/or memorandum indicating the hard copy location. In this example of an Intranet audit folder, the Army Financial Statement Assertions are located on the DFAS ePortal. Folders are set up for each of the affected financial statements. Within each statement folder, subfolders are set up for various line items such as Accounts Payable, Cash, Fund Balance with Treasury (FBWT), and others.

Each line item is further subdivided by fund or other applicable division. In the case of FBWT, it is subdivided into folders for the Army General Fund and the Army Working Capital Fund. Once the fund is selected, a subfolder containing FBWT assertion packet information may be opened. Subfolders in this area are divided into assertion or audit files. Assertion files include a table of contents file and numbered files that are labeled by section and title. Audit files are labeled by agency and title or report number of the audit reports.

Not only are auditors interested in gaining access to evidentiary matter through such means as audit folders, they also will ensure OM&S is correctly valued.

Audit folders may contain supporting documentation for valuation, or as previously indicated, the audit folder may be a link to the hard copy source. But either way, you must know what's acceptable to the auditor; so let's learn about methods of valuation next.



## Methods of OM&S Valuations



### OUSDC Memorandum (excerpt), July 6, 2001, Inventory Valuation

**SUBJECT:** Approved Valuation Method for Inventory Held for Sale and Operating Materials and Supplies

The Department of Defense legacy systems were not designed to maintain historical cost valuation for inventory held for sale and operating materials and supplies in compliance with generally accepted accounting principles. Despite significant efforts to achieve an auditable financial presentation using available data, the current approach, latest acquisition cost adjusted for holding gains and losses, does not provide meaningful financial accounting information and has failed to gain audit acceptance.

The use of the moving average cost inventory valuation method should provide the best value to the Department, based on the Components' analyses of the Department's material management policies and processes. The Department of Defense Financial Management Regulation, DoD 7000.14-R, Volumes 4 and 11B, will be modified to establish moving average cost as the Department's standard valuation method for the financial statement presentation of inventory and operating materials and supplies. The Military Departments and the Defense Agencies may request exceptions to this valuation method for their financial statements from the Director, Accounting Policy. Each Military Department and Defense Agency responsible for material amounts of inventory or operating materials and supplies shall implement the moving average cost valuation method as systems are renovated or replaced. Alternative valuation methods may continue to be used for other functional requirements (e.g., logistics, procurement,

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L3-40

The memorandum, Approved Valuation Method for Inventory Held For Sale and Operating Materials and Supplies, pertains to inventory valuation, and is shown in Appendix D, was published by the Office of the Under Secretary of Defense, Comptroller (OUSDC) on July 6, 2001. It announced the preferred valuation method for Inventory Held for Sale and OM&S. It determined that LAC, Adjusted for Holding Gains and Losses method, did not provide meaningful financial accounting information and failed to gain audit acceptance.

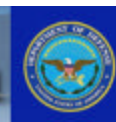
The Department determined that the MAC valuation method should provide the best value to the Department, based on the Components' analyses of the Department's material management policies and process. The DoDFMR, Volumes 4 and 11B, will be modified to establish MAC as the Department's standard valuation method for the financial statement presentation of inventory. This policy was effective upon receipt of the memorandum.

Let's discuss the definition of the MAC method of valuing OM&S.





## Methods of OM&S Valuations (cont.)

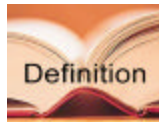


### **What is Moving Average Cost (MAC)?**

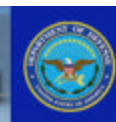
**MAC is an inventory costing method under which an average unit cost is computed after each acquisition by adding the cost of the newly acquired units to the cost of the units of inventory on-hand and dividing this figure by the new total number of units.**

The MAC valuation method requires a perpetual inventory valuation system. This is one in which the inventory quantities and values for all purchases and issues are recorded directly in the inventory system as they occur. Perpetual inventory system balances are verified by means of periodic physical counts. The physical inventory may be accomplished by a revolving physical count, in which segments of inventories are counted at different times.

Let's look at how to use MAC properly.



## Methods of OM&S Valuations (cont.)



### Steps to Accurately Prepare MAC

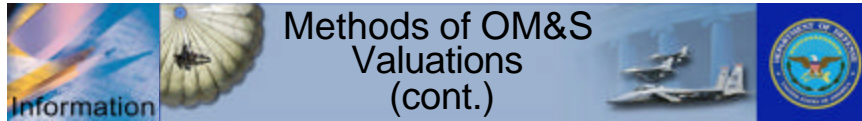
- **MAC in general**
- **Perpetual inventory system**
- **Baseline items on-hand using MAC**
- **Process baseline and all future items using MAC**

In order to develop an accurate inventory, you must understand MAC as we just defined it. Next you must have a perpetual inventory system. Without the appropriate system it is impossible to create an accurate inventory valuation. Once you have a perpetual inventory system, you must baseline your inventory on-hand using the MAC valuation method. This creates a valid bottom line for the next step, in which all future inventory items must be valued using MAC.

A perpetual inventory system uses transactions to adjust on-hand balances to coincide with physical activity that occurs. A perpetual inventory system is one in which the inventory quantities and values for all purchases and issues are recorded directly in the inventory system as they occur. Perpetual inventory system balances are verified by means of periodic physical counts. This is a system of inventory accounting in which both the revenues from sales and the cost of merchandise sold are reported each time a sale is made, so that the records continuously disclose the amount of the inventory on-hand.

This seems simple, but there are those who have skipped the baseline MAC valuation and therefore do not have a valid perpetual valuation.

Let's examine 13 steps for inventory baseline valuation.



**There are 13 steps for OM&S baseline valuation that provide guidance on the verification of physical existence of quantities of OM&S.**

- |                                      |  |
|--------------------------------------|--|
| 1. Inventory items reviewed          | 8. Values of like items  |
| 2. Acquisition histories in database | 9. Corroborate repair costs  |
| 3. Baseline historical values        | 10. Repair data as alternative valuation   |
| 4. Validate supporting documentation | 11. Materiality to financial statements or catalog price                               |
| 5. Validate reported quantities      | 12. Probability of items sold or issued for use or baselined to a net realizable value |
| 6. Like items information            | 13. Alternative valuations   |
| 7. Alternative correlations          |  |

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L3-43

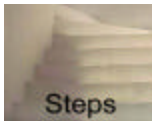



The Department recognizes 13 steps for OM&S baseline valuation. Their purpose is to help accurately verify the physical existence of quantities of OM&S.

These 13 steps are primarily predicated on an iterative and information gathering process, utilizing data in stock control, logistics, and inventory accounting systems that support and maintain reportable on-hand inventory.

However, in order for baseline valuations to have audit creditability, quantities used in the baseline valuations must be complimented by Existence and Completeness (of the management assertions discussed earlier) testing of actual on-hand inventory quantities using methods approved by Generally Accepted Accounting Principles (GAAP).

Recall our earlier discussion about audit folders. The items shown here are ones that would go in such audit folders.

Next, let's discuss the first three steps shown on the slide.

		<b>Methods of OM&amp;S Valuations (cont.)</b>		
<b>Baseline Valuation, Step 1</b>				
<b>Review all managed or held inventory and OM&amp;S items with National Stock Numbers (NSNs), Manufacturer's part numbers, or other identifying item numbers used in supporting inventory stock/logistics systems.</b>				
<b>Baseline Valuation, Step 2</b>				
<b>Determine and include in the database, all available acquisition histories related to items being baselined which had reported on-hand quantities.</b>				
<b>Baseline Valuation, Step 3</b>				
<b>Determine initial baseline historical values for those items with reported on-hand quantities for the most recent acquisition histories.</b>				
<hr/>				
Version 1.0		How to Prepare for an Audit of Inventory and OM&S	L3-44	

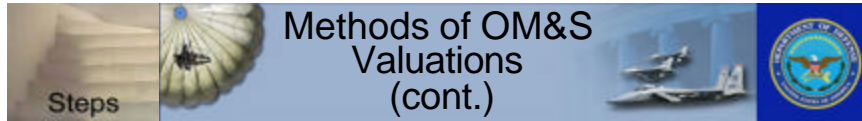
When determining the baseline, complete only those steps applicable to your agency's OM&S needs.

In Step 1, review all managed or held inventory and OM&S items with National Stock Numbers (NSNs), Manufacturer's part numbers or other identifying item numbers used in supporting inventory stock/logistics systems. Determine the items that have quantities reported as on-hand by the supporting systems, and verify the accuracy and integrity of data on the supporting systems that compute and maintain the quantities. In addition, establish a workable database for all items being baselined that have reported on-hand quantities.

In Step 2, determine and include in the database, all available acquisition histories related to items being baselined which had reported on-hand quantities. The acquisition history includes information and data elements from supporting logistics or management systems that indicate procurement, such as last representative buy quantity and price.

In Step 3, determine the initial baseline historical values for those items with reported on-hand quantities for the most recent acquisition histories. Use the next most recent acquisition data until all reported on-hand quantities being baselined are identified with an initial historical baseline value.

Let's continue with Steps 4 and 5.



### **Baseline Valuation, Step 4**

**Validate reported on-hand quantities with acquisition histories to supporting documentation.**

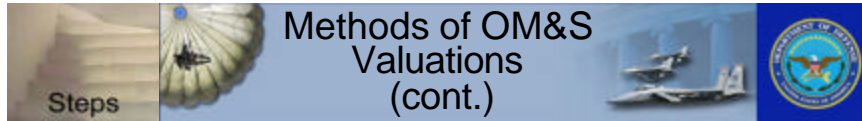
### **Baseline Valuation, Step 5**

**Validate reported on-hand quantities with acquisition histories but no supporting contract information to corroborative information, such as commercial sources or other similar and multiple acquisition histories.**

In Step 4, validate the reported on-hand quantities with acquisition histories to supporting documentation. Determine the availability of source documents, such as hard copy contracts, contract data repositories, contract data databases, or other supporting documentation, such as delivery orders, purchase orders, and receipt documentation.

In Step 5, validate the reported on-hand quantities with acquisition histories but no supporting contract information to corroborative information, such as commercial sources or other similar and multiple acquisition histories (for example, with similar dollar values). Convert multiple acquisition histories with no supporting contractual data to current year dollars.

Let's continue with Steps 6 and 7.



### **Baseline Valuation, Step 6**

**For reported on-hand quantities with acquisition histories but no supporting contract information and no acceptable corroborative information, determine the availability of corroborative information for like items.**

### **Baseline Valuation, Step 7**

**For reported on-hand quantities with no acquisition histories and no supporting contract information or corroborative information, determine alternative corroborative correlations, such as Standard Price (SP) comparisons to commercial price catalogs.**

Version 1.0

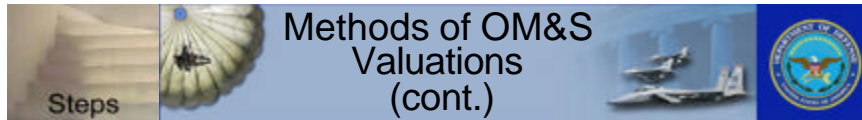
How to Prepare for an Audit of Inventory and OM&S

L3-46

In Step 6, for reported on-hand quantities with acquisition histories but no supporting contract information or no acceptable corroborative information, determine the availability of corroborative information for like items, such as items identified as interchangeable and substitutable.

In Step 7, for reported on-hand quantities with no acquisition histories and no supporting contract information or corroborative information, determine alternative corroborative correlations, such as Standard Price (SP) (less surcharge) comparisons to commercial price catalogs.

Let's continue with Steps 8 and 9.



### **Baseline Valuation, Step 8**

**For reported on-hand quantities with no acquisition histories and no supporting contract information or corroborative or alternative corroborative information, determine values of like items, as defined by item managers.**

### **Baseline Valuation, Step 9**

**For reported on-hand quantities with no acquisition histories and no acceptable supporting contract or corroborative information, determine actual repair costs incurred for on-hand quantities with repair histories as alternative corroborative information or as an alternative item valuation.**

Version 1.0

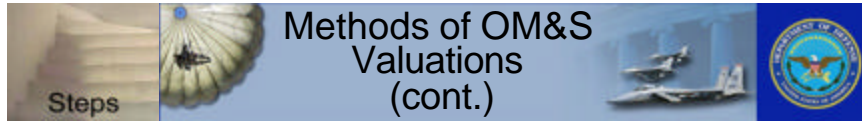
How to Prepare for an Audit of Inventory and OM&S

L3-47

In Step 8, for reported on-hand quantities with no acquisition histories and no supporting contract information or corroborative or alternative corroborative information, determine values of like items, as defined by item managers. In addition, use interchangeable or substitutable item values in Step 8 reported on-hand quantities when interchangeable/substitute items have supporting documentation or corroborative information.

In Step 9, for reported on-hand quantities with no acquisition histories and no acceptable supporting contract or corroborative information, determine repair histories as alternative corroborative information or as an alternative item valuation.

Let's continue with Steps 10 and 11.



### **Baseline Valuation, Step 10**

**For reported on-hand repairable item quantities found in Step 9 (with no acquisition histories and no procurement or corroborative information) that cannot be corroborated to repair data, use the repair cost as the alternative baseline valuation.**

### **Baseline Valuation, Step 11**

**Determine the materiality to the financial statements of any reported on-hand quantities that have not been assigned a supportable or corroborative baseline value subsequent to the completion of Steps 1 through 10.**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

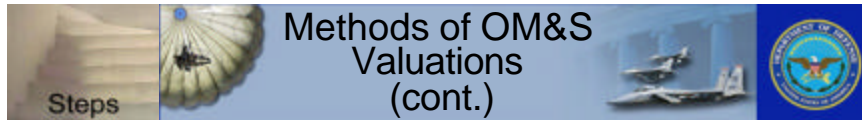
L3-48

In Step 10, for reported on-hand repairable item quantities found in Step 9 (with no acquisition histories and no procurement or corroborative information) that cannot be corroborated to repair data, use the repair cost as the alternative baseline valuation.

In Step 11, determine the materiality to the financial statements of any reported on-hand quantities that have not been assigned a supportable or corroborative baseline value subsequent to the completion of Steps 1 through 10. In general, if materiality relative to the total financial statement values is not significant, use the current catalog price in Step 11 (minus surcharges).

Let's continue with the final steps, 12 and 13.





### **Baseline Valuation, Step 12**

**Assess the probability of items being sold or issued for use, where there is no acquisition data, procurement data, repair data, or strong corroborative data.**

### **Baseline Valuation, Step 13**

**For items which represent material values and will potentially have continued demand, determine alternative valuations for any items not valued subsequent to Steps 1 through 12.**

Version 1.0

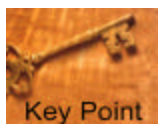
How to Prepare for an Audit of Inventory and OM&S

L3-49

In Step 12, assess the probability of items being sold or issued for use, where there is no acquisition data, procurement data, repair data, or strong corroborative data. For items that have no demand history, support obsolete and retired weapons systems, or for which there is otherwise a remote chance of sale or issue, baseline the item with a zero value, unless item managers can provide reasonable evidence to the contrary.

In Step 13, for items which represent material values and will potentially have continued demand, determine alternative valuations for any items not valued subsequent to Steps 1 through 12. Alternative valuations include information based on expertise of item managers, Program Management Offices, budget programs for items in question, cost of engineering estimates, price deflators, or alternative databases. All alternative baseline valuations should be documented for audit purposes.

Let's look at the differences between Inventory and OM&S.



## Differences Between Inventory and OM&S



### Valuation Differences between Inventory and OM&S

Inventory	OM&S
Tangible personal property held for sale; in the process of production for sale; or used in the provision of services for a fee	Consumed in normal operations
Recognized upon receipt of title (or actual receipt of goods by the purchasing entity)	Upon consumption (unless the OM&S is insignificant; in the hands of the end-user; or it is not cost beneficial to use the consumption method)

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L3-50

In Lesson 2, we discussed inventory and in Lesson 3, we discussed OM&S. You may have noted many similarities between the two categories and this is true. There are basically two significant differences between inventory and OM&S.

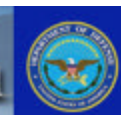
The first principal difference between the tangible personal property classified as inventory and OM&S is the intended use. Basically, if its part of the end product to be sold, it is inventory. On the other hand, if it will be consumed in normal operations, it is OM&S. OM&S does not include items acquired for use in constructing real property or in assembling equipment to be used by the entity; nor stockpile materials; nor goods held under price stabilization programs; nor foreclosed property; nor seized and forfeited property; nor as we see here, does it include items of inventory. OM&S is more definitively categorized as: OM&S Held for Use; OM&S Held in Reserve for Future Use; or Excess, Obsolete and Unserviceable OM&S.

Then second principal difference is when the item should be recognized. Inventory should be recognized upon transfer of title to the Department or upon receipt of the item. In general, OM&S uses the consumption method to determine when the item should be recognized – unless the OM&S is insignificant; in the hands of the end-user; or it is not cost beneficial to use the consumption method. Our primary source for this comparison is the SFFAS No. 3.

Let's review what we've learned in this lesson.



## Lesson Summary



- **Proper Source Documentation**
- **OM&S Audit Trails**
- **File Maintenance**
- **Audit Folders**
- **Methods of OM&S Valuations**
- **Differences Between Inventory and OM&S**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L3-51

In this lesson, you learned about the different types of supporting documentation such as contracts, invoices, receiving reports, and various types of SF and DD forms.

We discussed what constitutes OM&S and mentioned the applicable guidance in the DoDFMR. We also discussed the flow of OM&S transactions and their importance to you and the Department. We talked about the five categories of management assertions and their relationships to the financial statements.

We talked about the importance of establishing audit trails for OM&S transactions and audit folders for source documentation. We described some of the tools used to retrieve documents and reports such as EDA, EDM, OLRV, and WAWF. We explained the differences between inventory and OM&S. And finally, you learned about the OUSD(C) 2001 memorandum, that the preferred method is MAC for valuing inventory and cost of goods sold and there are 13 critical steps for inventory baseline valuation.

The following slide lists references available for additional information.



## References



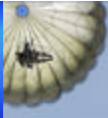

**DoDFMR:** <http://www.dod.mil/comptroller/fmr>

**NARA GRS:** <http://www.archives.gov/records-mgmt/ardor/>



**DD Forms 250, 1155 and 1348.1A (form only):**  
<http://www.dscc.dla.mil/Offices/packaging/forms.html>

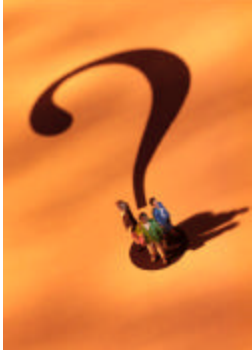
**DD Form 1348-1A, details on form preparation procedures:**  
[http://www.asset-trak.com/catt/msl\\_irrd/faq/irrd.htm](http://www.asset-trak.com/catt/msl_irrd/faq/irrd.htm)

**SF 1449:**  
<http://www.arnet.gov/far/current/pdf/FAR.book.pdf>



# Questions





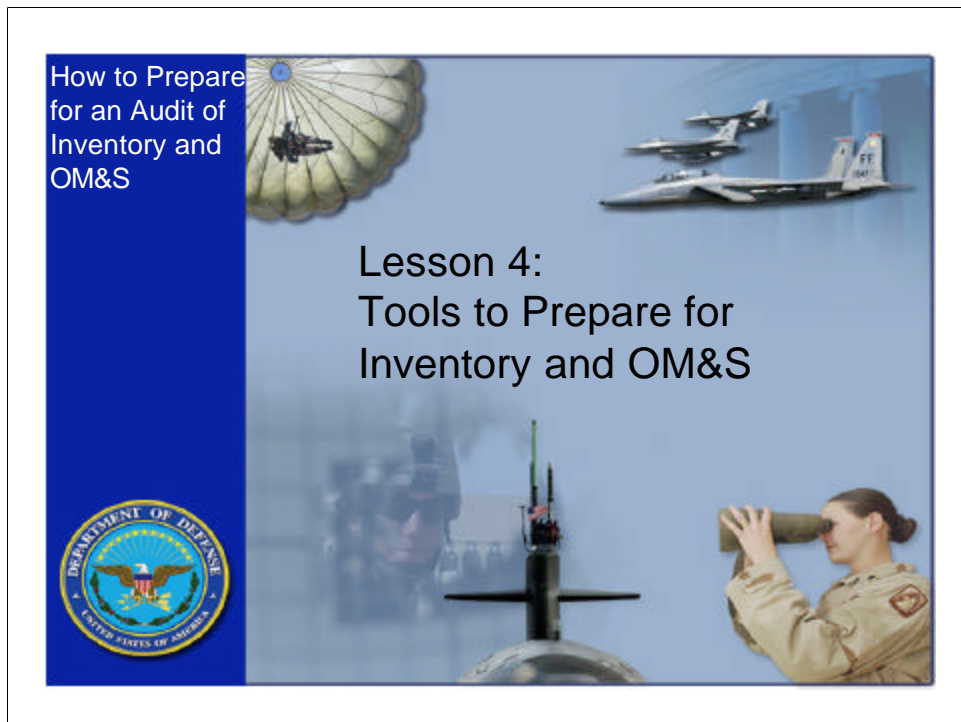
Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L3-53

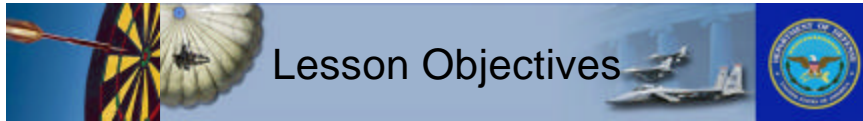
Before we move on to Lesson 4, Tools to Prepare for Audits of Inventory and OM&S, do you have any questions on the material covered in this lesson?

**This page intentionally left blank.**



In Lesson 4, we define the roles and responsibilities of different entities involved in audits of inventory and Operating Materials and Supplies (OM&S). Some of the tools that can help you prepare for these audit will also be described.

Let's discuss the lesson objectives.



## Lesson Objectives

**Upon successful completion of this lesson, you will be able to:**

- **Explain how to prepare for an audit of inventory and Operating Materials and Supplies (OM&S)**
- **Describe how to apply the Financial Improvement Initiative Business Rules to inventory and OM&S**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L4-2

This lesson provides detailed information of the five phases in the Financial Improvement Initiative Business Rules, as they relate to inventory and OM&S. These phases provide information on how to better understand the auditing process.

This is important because it will assist you in obtaining an unqualified audit opinion on the Department's financial statements.

Let's discuss the lesson topics.





## Lesson Topics



**This lesson contains the following topics:**

- **Roles and Responsibilities**
- **Financial Improvement Initiative Business Rules**
- **Discovery and Correction**
- **Validation**
- **Assertion**
- **Assessment**
- **Audit**
- **Reporting**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L4-3

In this lesson we will discuss the roles and responsibilities of the auditor, audit liaison, managers, Defense Finance and Accounting Service (DFAS), the Department of Defense (DoD) reporting entities, and re-emphasize the 13 step baseline valuation for inventory and OM&S.

We will also discuss the five-phase process used by the Department to move toward an unqualified opinion the their annual audited financial statements.

In accordance with the Office of the Under Secretary of Defense, Comptroller (OUSD(C)) Memorandum dated June 23, 2004, Subject: Financial Improvement Initiative Business Rules, the Department's process for preparing for an unqualified opinion is described within the Discover and Correction, Validation, Assertion, Assessment, and Audit Phases.

Lastly, we present the reporting requirements for management under the Office of Management and Budget (OMB) Circular A-123 and Appendix A, Internal Control over Financial Reporting.

Let's start with roles and responsibilities.



The roles and responsibilities of the auditor, the audit liaison team members, managers, DoD reporting entities, and DFAS are discussed in relation to what is required at each phase of the audit preparation.

We must ensure that there is adequate evidential documentation available to support inventory and OM&S transactions, including both system files and hard copy documentation that are required for the audit.

We must also verify procedures and controls, know the numbers reported on our financial information, and be able to explain abnormalities and normal fluctuation.

Communication is important with individuals directly involved in the audit process and throughout the organization and is also critical between the organization and the auditor.

Now let's talk about the roles and responsibilities of the auditor.



## Roles and Responsibilities (cont.)



**The DoD OIG auditor performs financial management audits within the Department and is:**

- **Independent**
- **Responsible for financial audits within the Department identifying material weaknesses**



The DoD Office of the Inspector General (DoD OIG) is an independent and objective entity within the DoD, that conducts and supervises audits.

The DoD OIG is charged with the responsibility for the audits of the financial statements. The DoD OIG will either perform the audits or contract with Certified Public Accounting (CPA) firms to perform audits. They are a key partner in the Financial Improvement Initiative Business Rules and provides assistance to the Department.

For example, the DoD OIG identified 11 material weaknesses that were reported in the Department's FY 2004 Performance and Accountability Report (PAR). This way, the DoD OIG assists the Department in determining what needs to be corrected.

In addition, the DoD OIG staff participates, as non-voting members, on the audit committees established by each of the components that prepare annual audited financial statements. The DoD OIG holds advisory membership on the Executive Steering Committee (ESC), the Review and Prioritization Subcommittee (RPS), and the Funding Subcommittee, which make up the governing structure for the Financial Improvement Initiative Business Rules.

Let's discuss a few more of the duties of the DoD OIG auditors.



## Roles and Responsibilities (cont.)



### **Auditors' duties:**

- **Obtain an understanding of internal control**
- **Provide the Prepared by Client (PBC) list**
- **Examine evidence**
- **Assess or audit**
- **Communicate progress and issues**
- **Express an opinion**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L4-6

When an entity is selected for audit, the auditors obtain an understanding of the agency's internal controls by reviewing their assertion package. The auditors provide a list of items that are required for the audit. This list is often referred to as the Prepared by Client (PBC) list.

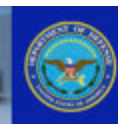
The auditors examine evidence supporting the dollar amounts and disclosures in the financial statements for inventory and OM&S. If the results of the assessment show that an entity does not appear to be ready for a udit, the auditors identify specific deficiencies and provide recommendations. When the results show that an entity is ready for audit, the auditors apply audit procedures.

The DoD OIG auditors may conduct the audit, or they may contract a CPA firm to conduct the audit. The progress of the audit and any issues are discussed with the entity being audited. Once the audit is concluded, the auditors express an opinion.

Let's discuss the role of the audit liaison.



## Roles and Responsibilities (cont.)



### **Audit Liaison:**

- **Entity representatives with knowledge of information or evidential matter needed by auditors**
- **Managers, technicians, and staff**
- **Ability to explain departures from normal procedures**
- **Main Point of Contact (POC) for the audit**



Version 1.0

How to Prepare for an Audit of Inventory and OM&S

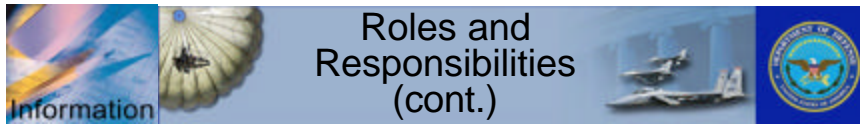
L4-7

The audit liaison is the main Point of Contact (POC) to receive and disseminate information. An organization may be represented by a team of individuals who are responsible for the overall presentation of information to the auditors and work as the liaison with auditors. Team members are chosen for their knowledge of operations, procedures, and financial position.

The team is composed of managers, technicians, and support personnel, in-house or contracted. Members must be available to work with auditors for extended periods. The staff assigned to the financial statements should possess adequate knowledge of the organization, functions, systems, and mission.

Team members should know and understand the normal balances of the inventory and OM&S, transactions, and procedures, and must be able to explain any abnormalities. Departures from normal procedures should be accompanied by evidential matter with proper justification and/or approval. Members within an organization should understand their importance in this process and know how they can contribute to the success of the organization and eventually achieve an unqualified audit opinion.

Let's examine the duties of the audit liaison members.



**Audit liaison duties include:**

- **Audit record-keeping**
- **Information gathering**
- **Explanation of internal control**
- **Serves as primary POC between audit staff and entity personnel**

A POC should be assigned to work with the auditors. Their duties include record-keeping, information gathering, explanation of internal control, and other liaison between the audit staff and entity personnel.

Record-keeping includes records of requests for information. The most common request is from the PBC list.

Information gathering includes standard queries on sample data to ensure that processes and queries provide required information on inventory and OM&S.

Internal control begins with the identification of controls and systems and includes financial reporting controls leading to the financial statements and compliance controls.

The establishment of an audit committee and the members is key to ensuring that the auditor understands the entity is serious about obtaining an unqualified audit opinion and has devoted the resources to that endeavor.

Let's discuss audit liaison activities.



## Roles and Responsibilities (cont.)



### **Audit liaison activities include:**

- **Communicating the scope of the audit**
- **Identifying required information**
- **Identifying required resources**
- **Organizing meetings with auditors**

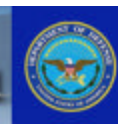
The audit liaison activities include communicating the scope of the audit, identifying the required information, and identifying required resources required by the auditors. The resources may include:

- telephones
- fax machines
- copiers
- computers
- office space
- organizing meetings with auditors.

Let's consider the role of individual managers.



## Roles and Responsibilities (cont.)



### Manager's role:

- **Implement OMB Circular A-123 and Appendix A**
- **Take systematic and proactive measures**
- **Report annually on controls**
- **Assess how well an entity controls its resources**



Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L4-10

OMB Circular A-123, Management's Responsibility for Internal Control, and Appendix A, Internal Control over Financial Reporting, outline responsibilities for managers which include the quality and timeliness of program performance, increasing productivity, controlling costs and mitigating adverse aspects of agency operations, and assuring that programs are managed with integrity and in compliance with applicable law.

Managers must take systematic and proactive measures to develop and implement appropriate, cost-effective management controls, assess the adequacy of management controls in their programs and operations, identify needed improvements, take corresponding corrective action, and report annually on those controls.

Audits are assessments of how well an entity controls its resources. Agency managers are required to follow up on audit recommendations and correct problems resulting from inadequate, excessive, or poorly designed controls, and to build appropriate controls into new programs. In designing appropriate controls, managers must communicate their DoD and systems issues to the OUSD(C).

Let's discuss these duties in more detail.





## Roles and Responsibilities (cont.)



### **Manager's role (cont.):**

- **Provide financial statements**
- **Assure reliability of information in reports**
- **Test, reconcile, and analyze financial data**
- **Prepare management representation letter**
- **Prepare engagement letter**
- **Prepare management assertion letter**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L4-11

Financial statements and accompanying footnotes are the responsibility of management. This reporting package contains Management Discussion and Analysis (MDA) of the financial information presented. The MDA is an executive summary of the results of operations, accomplishments, use of resources, and any unusual circumstances.

An audit tests the reliability of the information provided by management in the form of financial statements, reports on management controls, or other assurances or representations. One of the procedures used by management in the accomplishment of their duties involves testing, reconciling, and analyzing specific financial data to validate the information presented for audit.

The audited entity prepares a representation letter that attests to their responsibility for the financial information provided for audit.

An engagement letter is prepared by management to form an agreement with the auditors, and the audit is conducted on the areas asserted.

Let's look at procedures used by management in validating information.



## Roles and Responsibilities (cont.)



### **Procedures used by managers:**

- **Calculate variances**
- **Compare current to prior periods**
- **Compare related data**
- **Analyze account balances and age**
- **Explain unusual balances or significant entries**

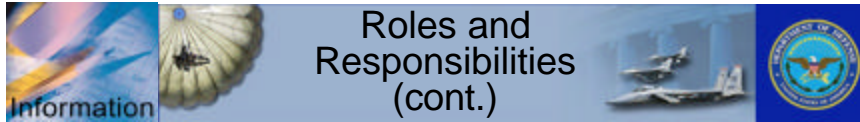
There are different ways data can be analyzed. One of the more common methods of analysis is to calculate absolute variance of line items such as inventory and OM&S. Managers must understand the reasons for variances and be able to present this information to users of the financial data. An inability to explain variances may lead auditors to think about control weaknesses, fraud, and inherent risks.

The reconciliation of financial statements involves comparing current and prior period data for inventory and OM&S, and balances from one financial statement to another in the same period such as the Statement of Budgetary Resources to the Statement of Net Cost.

Differences between any abnormal inventory and OM&S balances and actual data must be explained. Unusual balances or significant Journal Voucher (JV) entries for either inventory or OM&S, must be also explained in a meaningful, non-technical manner.

This analysis gives you a better understanding of the financial position of your entity and how significant management decisions affect that financial position.

Let's look at documenting the flow of data.



### **Procedures used by managers (cont.):**

- **Document data flow**
- **Ensure availability, completeness, accuracy, and validity of supporting documentation**
- **Identify and test controls and systems**
- **Staff adequately**
- **Provide guidance to properly value OM&S using the 13 steps for baseline valuation**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L4-13

Inventory and OM&S are documented so transactions are traceable from initiation, through the financial and non-financial feeder systems, to the financial statements.

Documenting the flow of the inventory and OM&S data is a critical step in preparing for an auditable universe. An auditable universe exists when supporting documentation is available, complete, accurate, and valid for all transactions.

Once the data is documented, tests of controls and systems for the reporting of the data begins. Tests of controls and systems are designed to ensure that transactions are properly authorized, resources are protected, and systems support appropriate controls. Management must ensure that a knowledgeable staff is available to support ongoing financial management efforts. Financial management occurs throughout the year, not just at year end. Managers must communicate audit requirements to members at all levels of the organization.

In order for OM&S to have audit credibility, management should ensure the baseline valuations are complimented by existence and completeness of on-hand quantities, which utilize methods approved by Generally Accepted Auditing Principles (GAAP).

Let's discuss some best practices for audit preparation.

L4-13



## Roles and Responsibilities (cont.)



### **Best practices for audit preparation:**

- **Plan meetings**
- **Implement schedules and hold regular progress meetings**
- **Discuss new standards and policy**
- **Discuss findings and audit adjustments**
- **Review interim financial statements**
- **Review lessons learned**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L4-14

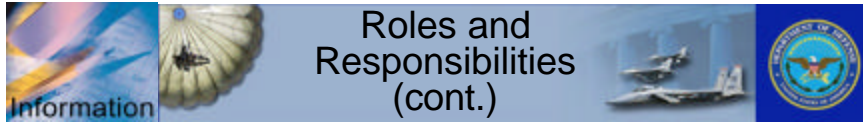
Meetings should be planned with a clear agenda that list topics for discussion. Any read-ahead material should be distributed in advance to ensure participants have time to plan their comments, and allow for discussion.

Regular progress meetings should be held to establish communication lines between the reporting entity, their suballotees, and their OUSD(C) POC. Communications should discuss new standards and policies to ensure the widest dissemination throughout the entity.

When discussing findings and audit adjustments, management should identify action teams to plan and implement solutions. Reviews of interim financial statements may identify trends or unusual activity that can be immediately corrected, or may require action or explanation at a later date.

Organizations publish lessons learned from previous audits, and these lesson may prevent you from making similar errors.

Let's discuss the DoD reporting entities.



## **DoD Entities Reporting**

**Agency-wide statements are required to cover all accounts and associated activities of each office, bureau, and activity within the Department.**

**Military Departments and defense agencies work diligently to correct the deficiencies that are keeping them from asserting that they are ready to have their financial statements audited.**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L4-15

The Office of Management and Budget (OMB) requires the DoD to prepare agency-wide audited financial statements in accordance with the Government Management Reform Act (GMRA).

The Financial Improvement Initiative Business Rules are designed to ensure that the Department achieves an unqualified audit opinion.

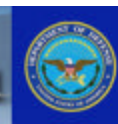
As the largest fund-holders in the Department, the Military Departments (Army, Navy, and Air Force) are key in the business rules. They hold the greatest share of the inventory and OM&S reported on the Department's agency-wide balance sheet.

These Military Departments and other DoD agencies are working diligently to correct the deficiencies that are keeping them from asserting that they are ready to have their financial statements audited.

Let's discuss the role of DFAS.



## Roles and Responsibilities (cont.)



**DFAS provides finance and accounting services for the DoD. DFAS initiatives are focused on fixing business processes that are within its control, such as:**

- **Inventory**
- **OM&S**
- **Related Journal Voucher (JV) adjustments**

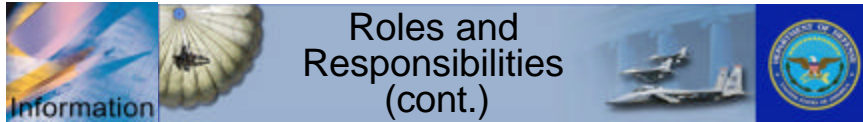


DFAS's mission is to provide responsive, professional finance and accounting services for the people who defend America. In providing these services, one of DFAS's goals is to satisfy customer requirements and aggressively resolve problems to deliver best-value services.

DFAS must continually review current finance and accounting systems and procedures, and identify improvements that can be made to processes and systems. DFAS initiatives are focused on fixing business processes that are within its control such as inventory and OM&S adjustments using JVs.

DFAS has already held DoD-wide conferences on DFAS business processes and systems audits with customers, the DoD audit community, and the Government Accountability Office (GAO).

Let's recap the key roles and responsibilities.



## **Summary of DoD Financial Statement Audit Players**

- **Auditors**
- **Audit liaison**
- **Managers**
- **DoD reporting entities**
- **DFAS**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L4-17

You have learned that auditors provide an assessment of the reliability of your financial statements.

The audit liaison team is responsible for the overall presentation of information to the auditors.

Managers are responsible for program performance.

DoD reporting entities include the Military Departments, defense agencies, and other primary fund-holders. The Financial Improvement Initiative Business Rules are plans to ensure that the Department achieves an unqualified audit opinion.

DFAS performs finance and accounting functions for DoD as well as reviews current finance and accounting systems and procedures to identify improvements that can be made to processes and systems.

Let's discuss the five-phases of the Financial Improvement Initiative Business Rules.



## Financial Improvement Initiative Business Rules



### Major Phases

Discovery and Correction	Validation	Assertion	Assessment	Audit
<b>WHY</b> <ul style="list-style-type: none"><li>Discover problems</li><li>Evaluate solutions</li><li>Plan solutions</li><li>Correct processes</li><li>Complete policy</li><li>Complement BMMP</li></ul> <b>HOW</b> <ul style="list-style-type: none"><li>Develop improvement plans</li><li>Establish audit committees</li><li>Develop systems strategy</li><li>Prepare business cases for systems changes</li><li>Prepare and review full set of financial statements each quarter</li></ul>	<b>WHY</b> <ul style="list-style-type: none"><li>Enhance credibility of assertions</li></ul> <b>HOW</b> <ul style="list-style-type: none"><li>At beginning, coordinate and obtain comment from DoDIG and notify RPS</li><li>Management documents processes, identifies controls &amp; systems, and ensures auditable universe of transactions &amp; supporting documentation is available</li><li>Management requests validation of financial information</li><li>Performed by internal review, component's audit agencies, or external audit firm</li></ul>	<b>WHY</b> <ul style="list-style-type: none"><li>Communicate to DoDIG and auditors reliability of financial information</li></ul> <b>HOW</b> <ul style="list-style-type: none"><li>Assertion letter to DoDIG that:<ol style="list-style-type: none"><li>Responds to DoDIG's instructions</li><li>Includes checklist</li><li>Includes results of validation and reports</li></ol></li><li>Engagement letter and management representative letter, if used</li><li>Memo to DoDIG, copy to OUSD (C) RPS</li><li>ESC approval for assessment/audit</li></ul>	<b>WHY</b> <ul style="list-style-type: none"><li>Allows remediation</li><li>Attests to management assertion</li><li>Plan audit</li><li>Reduce risk of unknowns (auditor)</li><li>Introduction to organization (auditors)</li></ul> <b>HOW</b> <ul style="list-style-type: none"><li>DoDIG oversight of IPAs</li><li>DoDIG in-house</li></ul>	<b>WHY</b> <ul style="list-style-type: none"><li>Implement CFO Act</li><li>Implement 1008</li><li>Presidents' Management Agenda</li></ul> <b>HOW</b> <ul style="list-style-type: none"><li>Pass assessment</li><li>DoDIG oversight of IPAs</li></ul>

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L4-18

Section 1008 of the National Defense Authorization Act for Fiscal Year 2002, requires that the OUSD(C) assess the reliability of the DoD financial statements.



The Department is accomplishing this task through several initiatives including the Financial Improvement Initiative Business Rules.

An unqualified audit opinion on the Department's financial statements is a key indicator of success. These business rules encompasses policies, processes, controls, defense business systems, personnel, organizations, performance metrics, and auditor assessments and audits that are directly or indirectly related to DoD Financial Management.



The Financial Improvement Initiative Business Rules are a five-phase process designed to prepare entities to pass a financial statement audit and to improve their ability to control and report on their financial activities

Let's begin with the Discovery and Correction Phase.



## Discovery and Correction

**Discovery and Correction Phase:**

**Management identifies deficiencies and implements corrective actions to complement the Business Management Modernization Program (BMMP)**

Why	How
Implement 1008, discover problems, evaluate solutions, correct processes, complete policy, complement BMMP	Develop improvement plans, establish audit committees, develop systems strategy, prepare business cases for systems changes, prepare and review financial statements each quarter

Version 1.0
How to Prepare for an Audit of Inventory and OM&S
L4-19

The Discovery and Correction Phase is intended to identify and correct deficiencies detected with inventory or OM&S and plan solutions to produce accurate financial information.

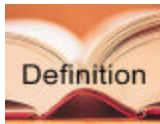
Managers must identify problem areas or deficiencies, then develop solutions to those problems. These problems may be identified from prior assessments or audits, analysis, tests of controls, or internal reviews of operations and procedures.

These plans include responsibility, milestones, and required resources. They take into account the plans of your subordinate organizations and depend on the plans of higher organizations. Progress is monitored both within and outside of your organization to ensure that milestones are reached. Resources outside of your organization may be available to you, and solutions found by other organizations may be applicable to problems within your operation.

The Business Management Modernization Program (BMMP) mission is to transform business operations to achieve improved war-fighter support while enabling financial accountability across the DoD.

Plans for corrective action may already be initiated on deficiencies found on previous audits and assessments, and new problems may be identified during their correction.

Let's discuss the two components, discovery and correction.

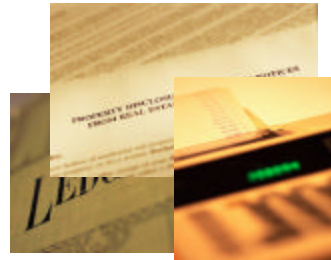


## Discovery and Correction (cont.)



**Discovery: identify obstacles and prepare corrective action plans in pursuit of an unqualified audit opinion.**

- **Prepare the financial improvement plans**
- **Identify all known deficiencies**
- **Consider whether systemic problems exist**
- **Prepare process flow diagrams**



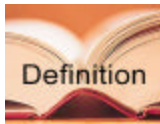
During discovery, you identify obstacles that could prevent the entity from obtaining an unqualified audit opinion. You prepare plans with solutions that have measurable outcomes for overcoming obstacles.

Managers and staff are encouraged to identify and report deficiencies, since this reflects positively on the agency's commitment to recognizing and addressing problems.

Agencies consider whether systemic problems exist that adversely affect management controls across the organization. Management should prepare process flow diagrams that include internal control and system interfaces.

The Discovery and Correction Phase is when entities prepare the financial improvement plans for achieving an unqualified audit opinion. Entities identify by financial statement line item known deficiencies relating to the item, including accounts requiring correction and processes requiring improvement.

Let's discuss what else is involved in discovery.



## Discovery and Correction (cont.)



### Discovery (cont.):

- **Identify material weaknesses**
- **Prepare corrective action plans**
- **Implement corrective action**
- **Incorporate effective oversight**

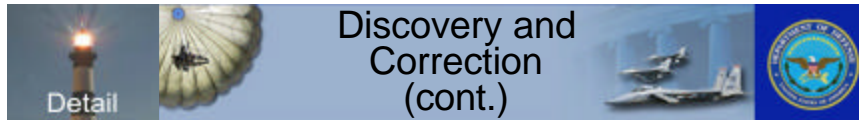


Managers should identify deficiencies that have a material impact on the financial statements and prioritize corrective actions. Comprehensive corrective action plans should be prepared to resolve the deficiencies.

The plans must identify how staff, processes, or business systems would be changed to implement corrective actions. Implemented plans must incorporate effective oversight mechanisms to ensure that they are carried out and that the corrections are sustainable. In addition, managers base milestones on actual estimates of the effort required, and identify critical task dependencies.

Corrective action plans include requirements for system audits that would need to be performed. Systems audits ensure that financial reporting systems are reliable. If current systems must be modified and the modifications are part of the corrective actions, management personnel prepare a business case to support the modification, submit the case to the BMMP Office, and advise the assigned OUSD(C) POC.

Let's explore some areas where problems are found.



### **Sources to identify weaknesses:**

- **Audit/inspection reports**
- **Lessons learned**
- **Policy, procedure, and process reviews**
- **Hot-line reports**
- **Actual analysis**



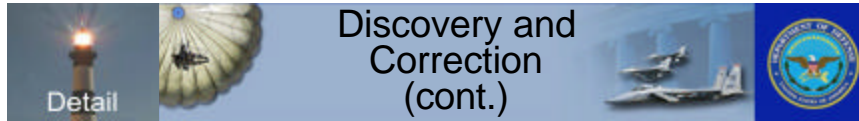
Problems are identified during audits, inspections, from lessons learned in similar organizations, or from reviews of policies, procedures, and processes. They are also discovered from analysis of financial information, documentation, and systems.

The establishment of a hot-line to report deficiencies such as those used to capture fraud, waste, and abuse information may also be a source for the identification of material weaknesses.

Reviews of management policies, procedures, and processes ensure that they are compliant with legal and regulatory guidance, and adequate controls over entity resources.

New procedures may be required in the absence of pre-existing procedural guidance, especially in areas of high personnel turnover, complicated processes, or high-value asset use.

Let's continue with the sources of weaknesses.



### **Sources to identify weaknesses (cont.):**

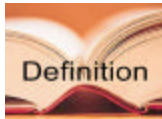
- **Analyze transactions and balances**
- **Trace transaction from origin to consolidation in financial statements**
- **Use available resources to perform systems analysis**

The analysis of financial information, source documentation, and systems is used to identify unusual balances. These unusual balances or erroneous entries may be the result of failure of a policy, procedure, internal control, or fraud. Where source documentation does not exist to trace transactions from their origin to their consolidation into the financial statements, they must be identified and resolved.

Auditors must be able to trace transactions from the financial statement to the originating source documents. They must also be able to verify from those documents that amounts recorded on the financial statements are based on factual information, and adjustments made to that information are made using appropriate accounting practices, and that proper authorization exists at each level of the transaction.

Systems analysis may be accomplished using resources from outside of your entity. The Defense Information Systems Agency (DISA) is one source. Another is DFAS. An analysis of systems is used to ensure that they are compatible with the future plans of the Department, and that they apply adequate internal controls for transaction authorization and separation of duties.

Let's discuss the Correction Phase.



## Discovery and Correction (cont.)



**Correction: DoD entities are required to implement solutions within the milestone dates prescribed, resulting in a resolution of the identified deficiency.**

- **Identify new deficiencies**
- **Modify plans to include any additional deficiencies**
- **Requests extension of dates if original milestones cannot be achieved**



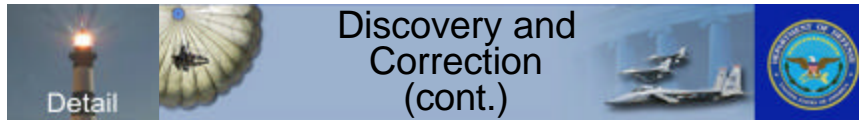
DoD entities are required to implement solutions within the milestone dates prescribed, resulting in a resolution of the deficiencies. The correction phase is a multi-faceted and incremental process.

All corrective action is not expected to be completed on the same date. Audit committees and management personnel at each activity closely monitor progress to ensure that corrective actions taken are within the established milestones.

Since correction actions are ongoing, new deficiencies may be identified. If this occurs, activities should coordinate with their OUSD(C) POC to modify plans to include any such additions.

Requests for extension of dates should include actions taken to date, reason for date slippage, new proposed completion date, and a plan for getting back on track to meet the original milestone date.

Let's consider these requirements.



### **Correction Requirements**

- **On time and incremental**
- **Resolves discrepancy**
- **Monitor progress and coordinate**
- **Extensions**

Plans for corrective action must contain milestones and goals that are clearly measurable. These plans are incremental to allow for actions that may involve more than one entity. Management must assign tasks to responsible individuals in accordance with the corrective action plans and monitor progress. Individuals are held accountable for the accomplishment of their assigned tasks using a balanced scorecard approach.

Problems may be encountered requiring additional resources. Resources may be reassign by management or requests for assistance from outside sources may be needed. Problems identified may require action from other entities prior to correction of the original discrepancy. In such cases, managers may re-organize actions that are not dependent upon the delayed processes to allow for the continuation of corrections.

As other entities may depend on the resolution of your original deficiency, it is important to coordinate with your OUSD(C) POC. Your POC works with you to identify resource requirements, coordinate schedules, and modify interim milestones. As mentioned earlier, you must have a plan for meeting the next original milestone.

Let's examine some best practices.



## Discovery and Correction (cont.)



### Best Practices

- **Hold regular progress reviews**
- **Know your deficiencies**
- **Document responsibilities**
- **Partner with Other Defense Organizations (ODOs)**
- **Use available assistance**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L4-26


Best practices serve well in similar organizations concerning discovery and correction. During the monitoring process, holding regular reviews allow managers to identify requirements that may not have been anticipated in the corrective action plans. Reviews should have clear agendas and require responses from participants as to the status of their progress.

The best organizations know their deficiencies and assess their operations regularly. A recent practice within the Department is to brief mid-year and end-of-year financial statements to the DoD Comptroller. According to the GAO and the DoD OIG, this practice of preparing and explaining interim financial statements has improved the reliability of reported information through more timely discovery and correction of recording and reporting errors.

Responsibilities are documented to ensure who must perform the action, what must be done, when it must be completed, and the expected results. DFAS is a source of assistance. They are familiar with audit requirements and have passed more than one audit. Other Defense Organizations (ODOs) can be a source of assistance. For example, DFAS is familiar with audit requirements and has passed more than one audit. They are knowledgeable of reporting requirements, documentation requirements, financial systems and their capabilities, and financial management trends. They can provide assistance in the analysis of financial transactions and balances and explain unusual transactions that affect your financial statements.



Let's discuss the Validation Phase.





on

Validation

**Validation Phase:**

**Management validates financial information after corrective actions are completed.**

Why	How
Implement 1008, enhance credibility of assertions, validate corrections.	First, management coordinates with DoDIG and notifies RPS. Second, management validates that processes are documented, controls and systems are identified, and supporting documentation is available.

Version 1.0
How to Prepare for an Audit of Inventory and OM&S
L4-27

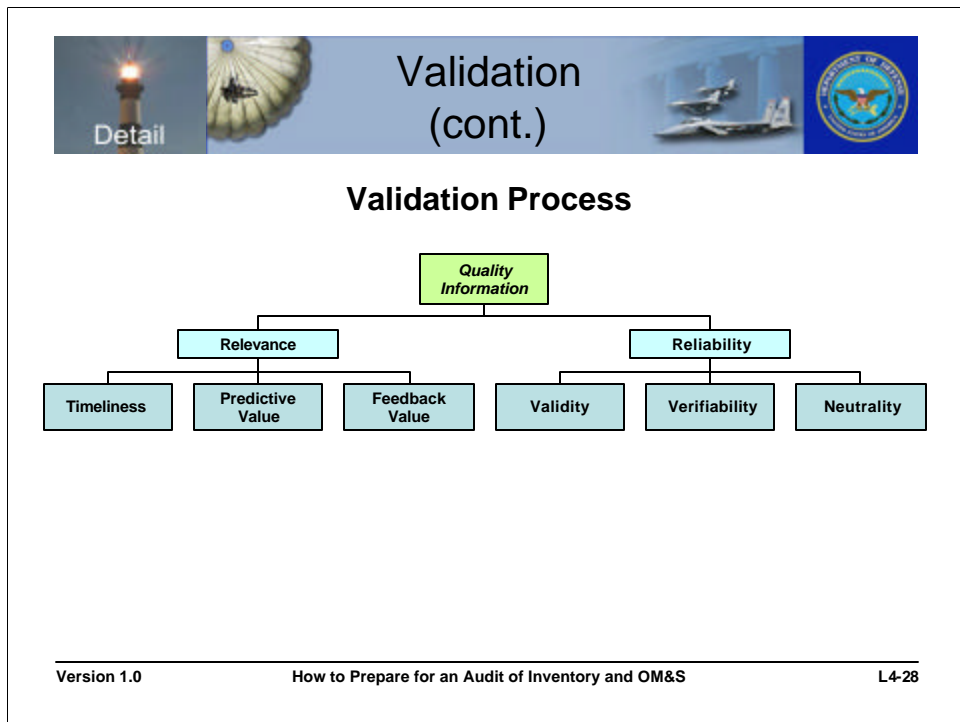
The Validation Phase validates the effectiveness of the corrective actions. This phase is accomplished through coordination with the DoD OIG and their RPS.

This validation determines if sufficient internal control and transaction information is available to support management’s assertion that the line or financial statement is ready for audit, and ensures that supporting source documentation is available for audit.

A validation is a limited scope evaluation or review to determine whether previously identified deficiencies of an entity’s financial statements or line items have been satisfactorily remedied. This review is the responsibility of management and may be performed by management, internal auditors, or a contractor under the supervision of management.

The scope of specific procedures required for each validation are also the responsibility of management and are determined in the context of the materiality of each issue or action taken.

Let’s continue with the validation process.



At the start of the Validation Phase, an entity notifies the DoD OIG of their intent to validate a line or statement and the corrective actions taken to resolve deficiencies. It is important to tell the DoD OIG what you plan to accomplish. The DoD OIG must be aware of the validation technique performed by the entity prior to the initiation of the validation process to facilitate the assessment process after the entity submits its assertion package. Although the DoD OIG has no specific role in the validation, the DoD OIG may, in an advisory capacity, comment on any obvious flaws or items of concern related to the validation methodology.

The OUSD(C) POC then notifies the RPS. The RPS notifies the ESC, and, if any concerns exist, the ESC provides a memorandum to the entity conveying its concerns. The notification includes the intended method for validating the known deficiency. Once the required notification is sent, and validation methods are planned, the validation process begins.

The validation process is primarily for management to determine whether a particular statement or line is ready for an assessment or audit by the DoD OIG. To be audit-ready, information provided in the statement or line must be both relevant and reliable. Relevance is related to the usefulness of the information, such as its timeliness, predictive value, or feedback value. Reliability relates to the accuracy of the information. To be reliable, the information must be valid, verifiable, and unbiased or neutral. If management determines that the statement or line is ready, the work accomplished during validation may be used by the DoD OIG.

Let's discuss the actions required in this phase.

## Validation (cont.)

### Assertion Package Organization and Review Criteria

TAB	TOPIC	Checklist Step
1	Process Cycle Memos and Flow Charts	1
2	GL Transaction Detail/Support	2
3	Evidential Matter	3
4	Validation Summary (Management Assertion Letter, Completed Assertion Checklist, and Validation Work Products such as completed GAO Checklists, etc)	4
5	Status of FIP Corrective Actions	5
6	Summary of Corrective Actions Taken	6
7	Organization Charts/Contact Lists	7
8	FISCAM and SAS 70/88 Audit Date and POCs	8
9	FISCAM and SAS 70/88 Audit Results	9
10	Hardware, Software, and Interfaces	10
11	Type of Data Produced	11
12	Telecom/Network Information	12
13	Certifications/Accreditations	13
14	System/End User Locations	14
15	Location of Systems Documentation	15
16	Data Type/Summary of Transactions (Number, Type, Dollar Value)	16
17	List of Authorized Users	17
18	List of On-Going or Planned Reviews	18

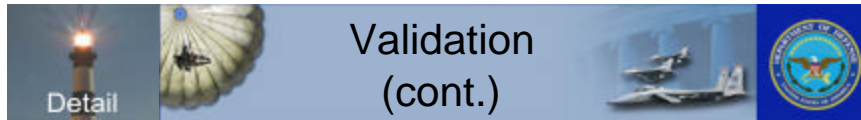
Version 1.0
How to Prepare for an Audit of Inventory and OM&S
L4-29

During the Validation Phase, the entity performs a validation of the resolution of the identified deficiencies. Validations of inventory and OM&S transactions are performed at the request and under the oversight of management. Audit committees within the entity should be actively engaged in overseeing the progress of the validation process.

At this time management completes a checklist that is required for the assertion package. The checklist includes such steps as documenting processes, identifying controls and systems, and ensuring that supporting documentation is available. This checklist and accompanying assertion information is used later during the Assessment and Audit Phases.

Notice that the checklist begins with the topic Process Cycle Memos and Flow Charts. To use the checklist, you must read the accompanying instructions that provide a full description of what is required to fulfill the checklist item.

Let's continue with process cycle memos and flow charts.



### **Requirements for Checklist Item 1: Process Cycle Memos and Flow Charts**

- **Identify and document the procedures, processes, and control points for deriving the balances**
- **Include the systems that are used and the flow of data from field level/installation to departmental level**
- **Identify all systems that have detail that make up the balances**

**GAO/PCIE FAM: <http://www.gao.gov>**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

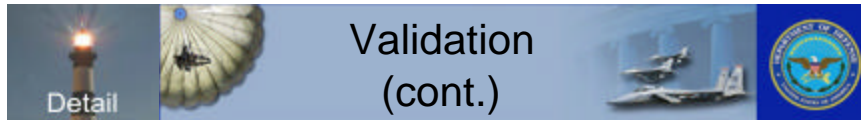
L4-30

The GAO/President's Council on Integrity and Efficiency (PCIE) Financial Audit Manual (FAM) describes the cycle memorandum. In the Processing Cycle Memos and Flow Charts, the user needs to identify and document the procedures, processes, and control points for deriving the balance or balances on the financial statements being asserted. The user needs to include the systems that are used and the flow of data from field level or installation to departmental level.

This can be done in a cycle memorandum or flow chart format. This information will also be used by the auditor as part of the audit so you will already have the information prepared. You should be sure to identify all systems that have details that make up the balances being asserted as ready for audit.

We covered the need to identify and document the procedures, processes, and controls within your entity. These processes began in the Discovery and Correction Phase while you were working on the identification of problems and planning corrective actions. It continues and is completed in the Validation Phase. The instructions also include the criteria used to evaluate whether or not the required action was satisfactorily completed.

Let's look at these criteria.



### **Evaluation Criteria for Process Cycle Memos and Flow Charts**

- **Accurately describe the regulations followed for the process**
- **Document procedures utilized**
- **Document key control techniques**
- **Identify systems used at the departmental level**
- **Include the management control objectives and risk assessments**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L4-31

The evaluation criteria for processing cycle memos and flow charts states that a flowchart is required for each major process and a cycle/process memorandum should be provided to accurately describe the regulations followed for the process; document procedures utilized; document key control techniques identify systems used at the departmental level; and include the management control objectives and risk assessments.

Control techniques/activities are those activities that work to ensure that resources are used consistent with laws, regulation, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained, and disclosed in reports. Examples include passwords, separation of duties, physical security, and adequate supervision among many others.

You should review the flowcharts, cycle/process memorandum, and supporting documents for reasonableness and completeness for each process listed.

Let's look at a few helpful practices.



## Validation (cont.)



### Helpful Practices during the Validation Phase

- **Think like an auditor**
- **Organizing documentation, and use document review products, such as EDA**
- **Maintain audit trails**

During the validation process, you must think like an auditor. This includes the use of some of their audit checklists, references, and tools that they would use to assess the information that you provide. The auditor's opinion is based on solid research of regulations, laws, your policies, practices, and procedures, and the financial information you report.

To ensure that others may reach the same conclusion, using the same data set and validation methods, a good method for organizing documentation is needed. Systems such as Electronic Document Access (EDA) can help in maintaining documentation for review.

Organizations that obtain favorable audit opinions established audit trails. When audit trails are established, records of tests of documentation procedures can be maintained to substantiate audit readiness. It is a good idea to keep a copy of the databases used in your analysis of financial information. Conclusions drawn using a particular set of data may not be valid when the data changes during the next accounting cycle, though the procedures for gathering that data should not change from one period to the next.

Let's discuss more practices.



## Validation (cont.)



### **Helpful Practices during the Validation Phase (cont.)**

- **Ensure senior management is involved**
- **Establish an audit committee**
- **Have good report writers**

During the Validation Phase, senior management involvement is critical, and having an audit committee ensures personnel who must answer audit questions are available during this process.

With their involvement during the Validation Phase, senior management shows the importance of the audit.

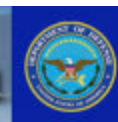
Just as a reminder, senior management may not have time to review detailed technical data. That must be done by those with specific expertise, such as accountants, logisticians, and data processing personnel.

The audited entity should have good report writers to summarize the data presented by technicians and analysts to the auditors.

Now let's discuss the Assertion Phase.



## Assertion



### Assertion Phase:

**Management affirms to the DoD OIG the reliability of the financial information**

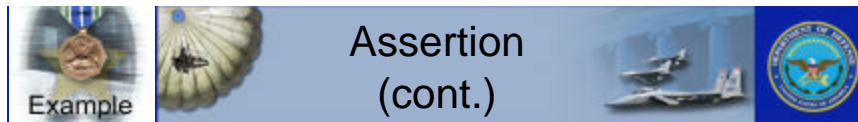
Why	How
Communicate to DoDIG and auditors the reliability of financial information.	Assertion letter to DoDIG, checklist, and results of validation and reports; engagement letter and management representative letter, if used; memo to DoDIG, copy to OUSD(C) RPS; ESC approval required for assessment or audit

In the Assertion Phase, the audited entity notifies the DoD OIG that validation of corrected deficiencies for inventory or OM&S has been completed and that a financial statement or specific line item is ready for audit.

When we discussed the Assertion Phase, management prepared an assertion memorandum stating audit readiness and a package of accompanying source documentation to support their position of audit readiness.

Let's talk more about the Assertion Phase.





### **What is contained in the Assertion Package?**

- **Assertion letter**
- **Validation work performed**
- **Assertion package checklist**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L4-35



The assertion package is submitted to DoD OIG, with a copy furnished to the OUSD(C) POC, which forwards it to the RPS.

The assertion package contains:

- the management assertion letter
- a summary of the validation work performed that contains an explanation of actions taken by management to resolve deficiencies, and reports resulting from validation
- the assertion checklist that was completed during the Validation Phase.

If the entity prepares an engagement letter or a management representation letter for the DoD OIG, subsequent representation letters should reflect management's assertions in them.

Let's look at each of these documents.

	<h2 style="text-align: center;">Assertion (cont.)</h2>												
<h3>Management Assertion Letter</h3>	<table border="1" style="width: 100%;"> <tr> <td colspan="2" style="text-align: center;">Organization name and address</td> </tr> <tr> <td style="width: 60%;">Office symbol</td> <td style="width: 40%; text-align: right;">Date stamp</td> </tr> <tr> <td colspan="2">Memorandum For (Organization Comptroller)</td> </tr> <tr> <td colspan="2">Subject: Management Assertion for (Named fund)</td> </tr> <tr> <td colspan="2"> <p>We are asserting that (Named fund) is auditable and we have completed corrective actions on material deficiencies for the (Named fund) line item on the balance sheet. (Named fund) is fairly presented in accordance with generally accepted accounting principles and is ready for audit. We are providing the completed assertion checklist information in the packet supporting our preparedness.</p> <p>We completed the actions to correct the known material deficiencies as articulated in (source document). The specific actions taken to correct the material deficiencies can be found in (file name and location) of the assertion packet. Additional actions were completed to ensure adequate controls are in place to meet auditor documentation requirements and we received assurances of auditability from (source of assurance).</p> <p>Sufficient audit-ready evidential matter is available to support the transactions that</p> </td> </tr> </table>			Organization name and address		Office symbol	Date stamp	Memorandum For (Organization Comptroller)		Subject: Management Assertion for (Named fund)		<p>We are asserting that (Named fund) is auditable and we have completed corrective actions on material deficiencies for the (Named fund) line item on the balance sheet. (Named fund) is fairly presented in accordance with generally accepted accounting principles and is ready for audit. We are providing the completed assertion checklist information in the packet supporting our preparedness.</p> <p>We completed the actions to correct the known material deficiencies as articulated in (source document). The specific actions taken to correct the material deficiencies can be found in (file name and location) of the assertion packet. Additional actions were completed to ensure adequate controls are in place to meet auditor documentation requirements and we received assurances of auditability from (source of assurance).</p> <p>Sufficient audit-ready evidential matter is available to support the transactions that</p>	
	Organization name and address												
Office symbol	Date stamp												
Memorandum For (Organization Comptroller)													
Subject: Management Assertion for (Named fund)													
<p>We are asserting that (Named fund) is auditable and we have completed corrective actions on material deficiencies for the (Named fund) line item on the balance sheet. (Named fund) is fairly presented in accordance with generally accepted accounting principles and is ready for audit. We are providing the completed assertion checklist information in the packet supporting our preparedness.</p> <p>We completed the actions to correct the known material deficiencies as articulated in (source document). The specific actions taken to correct the material deficiencies can be found in (file name and location) of the assertion packet. Additional actions were completed to ensure adequate controls are in place to meet auditor documentation requirements and we received assurances of auditability from (source of assurance).</p> <p>Sufficient audit-ready evidential matter is available to support the transactions that</p>													
<p>Version 1.0</p>	<p style="text-align: center;">How to Prepare for an Audit of Inventory and OM&amp;S</p>		<p style="text-align: right;">L4-36</p>										





When a management assertion letter is prepared by the organization, they are asserting that the line item or financial statement is auditable and that material deficiencies have been corrected.

The management assertion also states that the line item or financial statement is fairly presented in accordance with GAAP and is ready for audit. In addition, the letter also states that the items included in the assertion package support this assertion.

The management assertion letter contains the required assurance that sufficient audit-ready evidential matter is available to support the transactions that constitute the named fund, and the assurance that sufficient knowledgeable staff is available to support audit requests during audit fieldwork.

The next item is the Validation information, that includes a Validation Certification and the Validation Summary.

Let's take a look at those documents.


  <b>Assertion (cont.)</b>  							
<b>Validation Certification to the USD(C) and DoD OIG</b>	<table border="1"> <tr> <td>Organization</td> <td>Section Reference</td> </tr> <tr> <td>Client</td> <td>Date</td> </tr> <tr> <td>Named Fund</td> <td>Typed Date</td> </tr> </table>	Organization	Section Reference	Client	Date	Named Fund	Typed Date
	Organization	Section Reference					
	Client	Date					
	Named Fund	Typed Date					
<p>This document is to inform the Under Secretary of Defense (Comptroller), Department name, and Department of Defense Inspector General that the Named fund assertion packet meets all of the requirements set forth in the Under Secretary of Defense (Comptroller) memorandum "financial Improvement Business Rules," dated June 23, 2004 and "Financial Improvement Initiative Assertion Package Criteria and Organization," dated November 15, 2004. All supporting documentation has been compiled and presented as required as is available to view on the (file location and name).</p>							
<p>Preparer: PREPARER'S SIGNATURE</p> <p>Supervisor Review SUPERVISOR'S SIGNATURE</p> <p>Director of Departmental Accounting Review:</p>							
<p>Version 1.0</p>	<p>How to Prepare for an Audit of Inventory and OM&amp;S</p>						
<p>L4-37</p>							

This is an example of the Validation Certification with signatures of the preparer, reviewer, and other members of management.

They are annotating that the named fund assertion package meets all of the requirements set forth in the USD(C) memorandum concerning the Financial Improvement Initiative Business Rules and the memorandum subject Assertion Package Criteria and Organization.

The Department is asserting that all supporting documentation has been completed and presented as required and is available for view at a specific location.

Now let's look at the Validation Summary.

Assertion (cont.)		
 <p><b>Validation Summary</b></p> <p><b>Prepared by Audited Entity</b></p>	<p>Organization</p> <p>Executive Summary – Fund Name Assertion Packet</p>	
	<p>Client</p> <p>Fund Name</p>	<p>Date</p> <p>November 30, 2004</p>
	<p>Organization Name is asserting that the Fund Name and specific line item is ready for audit and balances reported in the quarterly and year-end financial statements are fairly presented in accordance with generally accepted accounting principles. Over the past five years the Organization has implemented several initiatives to improve the accountability over the execution and reporting of Fund name. These initiatives improved controls, increased the efficiency and timeliness of recording undistributed disbursements and collections in accounting systems, improved documentation, and reduced risk in the financial reporting process. These actions have put the organization in a position that with alternative auditing procedures the Fund name Balance Sheet line item (\$xx.x billion) is ready for an audit.</p>	
	<p><b>Composition of Fund name</b></p> <p>The organization receives the majority of funds in the form of direct appropriations (\$xxx.x billion), as passed by Congress in the Annual Appropriation Acts passed by Congress. These are apportioned by the Office of Management and Budget (OMB), and recorded on the basis of the U. S. Treasury issuing a Warrant to the Organization. The funding business rules impacting Fund name have been auditable for a number of years. The organization's Fund name is decremented, or supplemented by reimbursable activity (\$xx.x billion), by the recording of disbursements and collections at the U. S. Treasury. Organization has implemented several improvements since FY 2000 to ensure the timely recording of disbursements and collections (Net Outlays \$xxx.x billion) and to improve documentation. These actions lead the Organization to consider the Fund name to be considered auditable.</p>	
<p><b>Improved Controls</b></p> <p>The Organization Disbursing Network originally consisted of over XX disbursing activities processing over XXX fiscal stations. This structure caused enormous inconsistencies in business practices, large reconciliation issues, and minimal management control. To improve control, the network was consolidated into two</p>		
Version 1.0	How to Prepare for an Audit of Inventory and OM&S	
L4-38		

The corrective actions outlined in the Validation Summary which are taken to improve accountability, internal control, efficiency, timeliness, and documentation for the fund or balance being reported.

The Validation Summary identifies the fund (for example, Army General Fund) or specific line item that is ready for an audit.

In addition, the Validation Summary provides an overview of the fund prior to listing specific actions performed by the entity to prepare the fund or balance for audit.

This is an area where accomplishments of the entity are highlighted and good report writing is essential.

Let's talk about the completed checklist.

Detail		Assertion (cont.)		Section III Assertion Packet Checklist	
<b>Assertion Package Checklist</b>		<b>Organization</b>		<b>Section III Assertion Packet Checklist</b>	
<b>Prepared by</b>		<b>Client</b>		<b>Date</b>	
Typed name		Named fund or entity		November 30, 2004	
<input checked="" type="checkbox"/>		Identify and document the procedures, processes, and control point for deriving the balances being asserted. Include the systems that are used and the flow of data from field level to departmental level. <b>RESPONSE:</b> The procedures, processes, and control points are documented in the Process Analysis Document (PAD) and the Audit Folders. The PAD provides a high level overall flow of the Named Fund processes, information on the computer systems used, and process-level risks and controls. See <a href="#">Attachment A</a> for a copy of the PAD. In addition, the Assertion Folders provide detailed documentation on each of the individual processes within the PAD to include listings of the incoming and outgoing reports, point of contacts, control points, risk areas, assumptions, and examples. See <a href="#">Attachment B</a> for a list of all the Assertion Folders. Due to the volume, the folders are included in the assertion packet on the CD and on the file location and name."			
<input checked="" type="checkbox"/>		1. Have all General Ledger transaction detail and supporting information from feeder systems available for all the transactions that make up the balance being asserted. Ensure the total of the detail equals the balance of the line item. This includes all accounting adjustments that have an effect on the ending balance of a line item reported on the financial statements <b>RESPONSE:</b> <a href="#">Attachment D</a> provides a list of all the transaction files, the POC, the location of "			

Version 1.0                      How to Prepare for an Audit of Inventory and OM&S                      L4-39

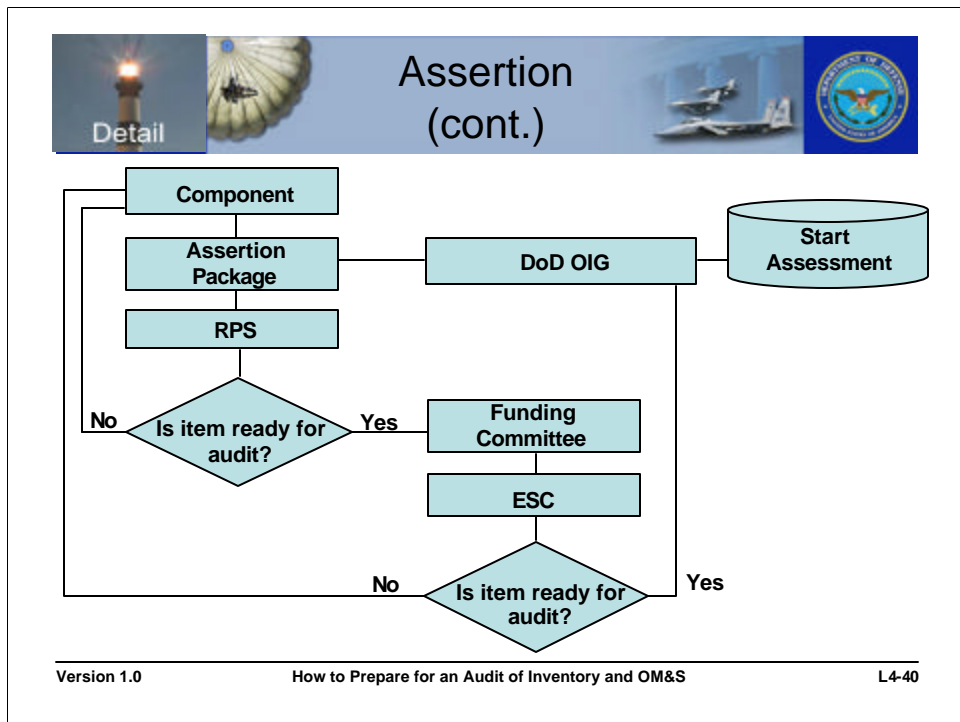
The Assertion Package Checklist provides a description of each topic and the entity's response to the requirements for validation.

The Process Cycle Memos and Flow Charts require the entity to identify and document the procedures, processes, and control points for deriving the balances being asserted.

The Assertion Package Checklist process includes the specific systems and relationship between the line being asserted and all financial management systems and associated feeder systems.

If a new financial or feeder system is being utilized and there are no previously identified systems problems, there is a requirement to include the Chief Financial Officers (CFO) Act fourteen point checklist for each system in the assertion.

Now let's discuss the distribution of these documents.



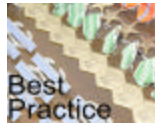
At the same time, the Component submits the Assertion Package Checklist to the RPS and the DoD OIG. The DoD OIG is non-voting member of the RPS and the ESC. The DoD OIG provides valuable input into the review of the Assertion Package Checklist including assessment and audit cost estimates.

If the RPS determines that the Assertion Package Checklist is audit-ready, the package is submitted to the Funding Committee and the ESC with their prioritized recommendations concerning assessment and audit schedules.

The ESC, with the Funding Committees recommendation reviews the Assertion Package Checklist for audit readiness. If the entity is audit-ready, the package is forwarded to the DoD OIG for audit. Once the DoD OIG receives the approved package from the ESC, the DoD OIG begins the assessment and audit.

If the RPS or ESC determinations that the assertion package is not audit-ready, the package is returned to the submitting Component.

Let's look at the assertion documenting process.



## Assertion (cont.)



### Methods for organizing folders

### Assertion Packages are on the DFAS ePortal

**FBWT Assertion Packet** [Up To Army General Fund](#)

OSD requires that for an entity to assert that a line or statement is auditable, the entity must provide an assertion letter and create an assertion packet. The packet must include all items required in the FBWT Assertion Packet Checklist. See the OSD "Financial Improvement Initiative Business Rules" Memo dated June 23, 2004. This folder address all the requirements of the OSD Memo.

IN - Army Financial Statement Assertions/Balance Sheet/Fund Balance with Treasury/Army General Fund/FBWT Assertion Packet

**Subfolders**

- FBWT Assertion Folders**: DFAS-IN documented all of the FBWT business processes in the Process Analysis Document (PAD) and various audit folders. Attachment B of the Assertion Packet lists all of the folders. This folder ...
- FBWT Audits**: Provides a copy of all the AGF FBWT Audits from FY 1999 - FY 2004. The solution for all of the deficiencies included in the audits is included in the FBWT Assertion Packet.

**Files** Sorted By: Name Ascending

- 00 FBWT Assertion Folder Cover.pdf** (86 KB)  
Author: DFAS\BROOK.AVEY First uploaded: 12/10/04 12:31 PM  
Last checked in: 12/10/04 12:31 PM Checked in by: DFAS\BROOK.AVEY  
Actions: [View File Details](#) | [Download](#) | [Versions](#)
- 01 FBWT Assertion Packet Table of Contents.doc** (52 KB) Table of Contents for the FBWT Assertion Packet  
Author: DFAS\BROOK.AVEY First uploaded: 11/18/04 1:56 PM  
Last checked in: 12/14/04 1:16 PM Checked in by: DFAS\BROOK.AVEY

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L4-41



Audited entities should develop methods of organizing folders so the assertion packages can be retrieved and reviewed quickly and efficiently.

An example of this process is the Army Financial Statement Assertions on the DFAS ePortal. Assertion package folders are set-up for each of the financial statements. For each financial statement folder, subfolders are set up for different line items such as Inventory, OM&S, Accounts Payable, Cash, and Fund Balance with Treasury.



The line item is subdivided by fund or other applicable division. In the case of Fund Balance with Treasury, the line is subdivided into folders for the Army General Fund and the Army Working Capital Fund. Once the type of fund is selected, a subfolder containing the Fund Balance with Treasury assertion package information is opened.

The subfolders in this area are divided into assertion or audit files. The assertion files include a table of contents file and numbered files that are labeled by section and title. The audit files are labeled by agency and title or report number of the audit reports.

Now let's discuss the Assessment Phase.

## Assessment

**Assessment Phase:**

**Financial statement information is reviewed by the DoD OIG to determine if the entity is ready for audit**

Why	How
Implements 1008, allows remediation, attests to management assertion, plans audit, reduces risk of unknowns to auditor, auditors' introduction to organization	DoDIG oversight of IPAs or DoDIG in-house assessments

Version 1.0
How to Prepare for an Audit of Inventory and OM&S
L4-42

The Assessment Phase determines the reliability of the line or financial statement that the entity asserted as being ready for audit.

This assessment is less than an audit, but should be sufficient enough to verify that the corrective actions implemented during the Discovery and Correction Phase of the financial improvement initiative were successful.

The Assessment Phases is generally done first if a statement has never been audited. The assessment could also occur when the DoD OIG believes circumstances exist that would cause the entity to obtain less than an unqualified opinion. An example of such a situation is a system of internal control allowing for the improper valuation of a inventory or OM&S.

Based on this information, the DoD OIG would determine that an assessment is necessary to ensure reliability as required per Section 1008. During the Assessment Phase, an entity performs a remedy in the event a deficiency is identified that would prevent an unqualified opinion.

Let's continue with the Assessment Phase.

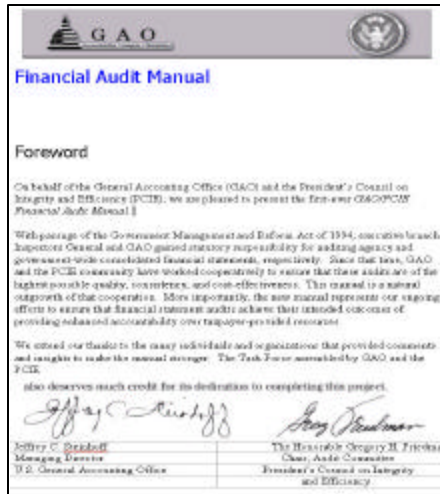




## Assessment (cont.)



**The Assessment Phase consists of audit steps outlined in the Planning Phase and Internal Control Phase of the FAM.**



Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L4-43

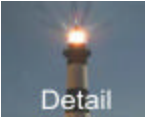

The Assessment Phase is conducted by the DoD OIG, or by an Independent Public Accountant (IPA) contracted to perform work for the DoD OIG. The scope is determined in accordance with the FAM and consists of audit steps outlined in the Planning Phase and Internal Control Phase of the FAM.

This process determines if the entity can achieve an unqualified opinion. If circumstances exist that preclude an unqualified opinion, a report is written to management. The report recommends to management what needs to be accomplished to obtain an unqualified opinion.



The Assessment Phase is used by the DoD OIG to reduce risks of the unknown and introduce new auditors to the entity's processes. Progress is reviewed and monitored by management and the entity's audit committee through progress reports. Management informs the OUSD(C) POC of any new deficiencies.

There is communication as the assessment progresses. Management should take actions to correct problems identified during the assessment. The DoD OIG recommends when it is appropriate to move forward with a formal audit.

Let's look at some audit steps in the Planning Phase.

## Assessment (cont.)

**FAM Planning Phase is contained in Section 200 of the FAM**

<b>200</b>	<b>PLANNING PHASE</b>
210	Overview
220	Understand the Entity's Operations
225	Perform Preliminary Analytical Procedures
230	Determine Planning, Design, and Test Materiality
235	Identify Significant Line Items, Accounts, Assertions, and RSSI
240	Identify Significant Cycles, Accounting Applications, and Financial Management Systems
245	Identify Significant Provisions of Laws and Regulations
250	Identify Relevant Budget Restrictions
260	Identify Risk Factors
270	Determine Likelihood of Effective Information System Controls

Version 1.0
How to Prepare for an Audit of Inventory and OM&S
L4-44

The Planning Phase of the FAM requires auditors to gain an understanding of the entity's operations, perform preliminary analytical procedures, and determine planning, design, and test materiality.



The auditors identify significant line items, accounts, and assertions.

In gaining an understanding of the entity's operations, auditors identify significant cycles, accounting applications, and financial management systems.



They familiarize themselves with the provisions of laws and regulations, and relevant budget restrictions.

The auditors evaluate risk factors and determine the likelihood of effective financial and feeder information system controls, and identify relevant operation controls to test and evaluate.

Let's discuss some aspects of the Planning Phase.

## Assessment (cont.)

### FAM Planning Phase, Section 240

Planning Phase

**240 - IDENTIFY SIGNIFICANT CYCLES, ACCOUNTING APPLICATIONS, AND FINANCIAL MANAGEMENT SYSTEMS**

.01 In the internal control phase, the auditor evaluates controls for each significant cycle and accounting application and determines whether significant financial management systems substantially comply with federal financial management systems requirements, federal accounting standards, and the SCL at the transaction level. A cycle or an accounting application should be considered significant if it processes an amount of transactions in excess of design materiality or if it supports a significant account balance in the financial statements or significant RSSI. A financial management system generally consists of one or more accounting applications. If one or more of the accounting applications making up a financial management system are considered significant, then that financial management system generally should be considered significant for determining whether the system substantially complies with FFMIA requirements. The auditor may identify other cycles, accounting applications, or financial management systems as significant based on qualitative considerations. For example, financial management systems covered by FFMIA include not only systems involved in processing financial transactions and preparing financial statements, but also systems supporting financial planning, management reporting, or budgeting activities, systems accumulating and reporting cost information, and the financial portion of mixed systems, such as benefit payment, logistics, personnel, and acquisition systems.

.02 The entity's accounting system may be viewed as consisting of logical groupings of related transactions and activities, or accounting applications.

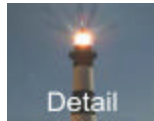
Version 1.0
How to Prepare for an Audit of Inventory and OM&S
L4-45

Section 240 of the FAM identifies significant cycles, accounting applications, and financial management systems that the auditors must be familiar with prior to conducting the audit.

The auditors evaluate internal controls of the entity to ensure that financial management systems comply with applicable standards.

The Planning Phase defines significance as it relates to each item and how the items are affected by both financial and non-financial systems.

Now let's discuss the Internal Control Phase.



## Assessment (cont.)



### FAM Internal Control Phase, Section 300

300	INTERNAL CONTROL PHASE
310	Overview
320	Understand Information Systems
330	Identify Control Objectives
340	Identify and Understand Relevant Control Activities
350	Determine the Nature, Timing, and Extent of Control Tests and of Tests for Systems' Compliance with FFMIA Requirements
360	Perform Nonsampling Control Tests and Tests for Systems' Compliance with FFMIA Requirements
370	Assess Controls on a Preliminary Basis
380	Other Considerations
390	Documentation



During the Internal Control Phase, the auditors to gain an understanding of the entity's information systems, control objectives, and identify a nd understand relevant control activities.

The auditors must determine the nature, timing, and extent of control tests and of tests for systems compliance with Federal Financial Management Improvement Act (FFMIA) requirements.



In addition, the auditors perform non-sampling control tests and tests for systems' compliance with FFMIA requirements.

An assessment is made of access controls on a preliminary basis, and there is a review of applicable documentation.

Let's take a closer look at control activities.

## Assessment (cont.)

### FAM Internal Control Phase, Section 340

**Internal Control Phase**

**340 - IDENTIFY AND UNDERSTAND RELEVANT CONTROL ACTIVITIES**

.01 For each control objective, based on discussions with entity personnel, the auditor should identify the control activities designed and implemented to achieve the specific control objective.<sup>1</sup> Such controls may be recorded in the auditor's informal notes and/or interview write-ups for use in the following procedure, but each control activity need not be formally documented on the SCE worksheet at this time. The auditor should first screen the activities to identify those that are effective and efficient to test. An IS auditor may assist the auditor in identifying and understanding IS controls.

**BASIC UNDERSTANDING OF EFFECTIVENESS OF CONTROL ACTIVITIES**

.02 The auditor should obtain a sufficient understanding of the identified control activities to determine whether they are likely to achieve the control objectives, assuming an effective control environment, risk assessment, communication, and monitoring, appropriate segregation of duties, and effective general controls. The purpose of this assumption is to identify any weaknesses in the specific control activities that should be corrected. When other internal control components are poor, there is inadequate segregation of duties, or poor general controls preclude the effectiveness of specific control activities that would otherwise be effective, the testing of such specific control activities may be limited to determining whether such controls are in place. To accomplish this, the auditor might (1) discuss the cycle and specific controls with management and then (2) perform walkthroughs by observing the controls in place or examining several items

Version 1.0
How to Prepare for an Audit of Inventory and OM&S
L4-47

In the FAM, Section 340, relevant control activities are described as those that are designed to achieve the specific control objective. The auditor screens the activities to identify objectives that are effective and efficient to test in an effort to obtain a sufficient understanding of the control activities.

The auditor determines if control activities will achieve the control objectives, assuming an effective control environment, risk assessment, communications, monitoring, appropriate segregation of duties, and effective general controls.

The auditor identifies any material weaknesses that should be corrected. When internal control components are weak, where there is inadequate segregation of duties, or poor general controls preclude the effectiveness of specific control activities that would otherwise be effective, the testing of these control activities may be limited to determining whether they are in place.

Let's examine some best practices in the Assessment Phase.



## Assessment (cont.)



### **Best Practices during the Assessment Phase**

- **Know the audit process and the regulations driving it**
- **Have good training and awareness for all staff**
- **Change the mindset toward audits**
- **Know the auditor's checklist**
- **Staff resources to work with auditors**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L4-48

You should understand the audit process and the regulations driving it. This way you can anticipate the auditor's requirements. It is important that good training and awareness for all staff is included in your assessment strategy. With adequate training on what is expected, you ensure that your people are ready for the audit.

Management must change the mindset toward audits; they are not just for the financial community. Frequent communication is necessary to convey expectations, goals, and direction. You may set up a web site or have a newsletter.

When the auditors examine entity operations, you should know the auditor's checklist. You can then anticipate what is going to be needed and start early to have the audit move quickly and have less disruption of business operations.

Successful organizations ensure that they have adequate resources in place to assist in the audit effort. You must assign resources to work with auditors or hire contractors.

Let's continue with a few more best practices.



## Assessment (cont.)



### **Best Practices during the Assessment Phase (cont.)**

- **Document retrieval methods documented**
- **Consistent practices**

Document retrieval methods may be established for both paper and electronic documents. You must have document retrieval methods established and documented, especially for historical data. Ledgers containing all transactions should be ready and should include all documentation and back-up matter.

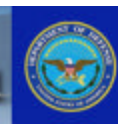
This matter may include purchase orders, invoices, receiving reports, and other essential documentation. This source documentation may be located in several different offices. It must be pulled together to support the financial records.

Auditors are looking for consistent practices that are within established guidelines.

Let's discuss the Audit Phase.



## Audit



### Audit Phase:

**The DoD OIG audits the organization's financial statements that management asserted were ready for audit and that passed the DoD OIG assessment.**



Why	How
Implement CFO Act, implement 1008, Presidents' Management Agenda.	Pass assessment, DoDIG oversight of IPAs or DoDIG in-house audits

The Audit Phase is to obtain an auditor's opinion of the condition of an entity's financial statement or line. The purpose of this phase is also to obtain an auditor's opinion of the fairness of the presentation of the information in the financial statements.



When a financial statement or portion thereof is asserted to be ready for audit and has passed assessment, or assessment has been waived, the DoD OIG determines the appropriate scope and nature for a financial audit and the associated reports.

Let's learn more about this phase.




## Audit (cont.)

**The Audit Phase consists of accomplishing the audit steps outlined in the Testing Phase and Reporting Phase of the audit manual.**




**Financial Audit Manual**

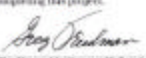
Foreword

On behalf of the General Accounting Office (GAO) and the President's Council on Integrity and Efficiency (PCIE), we are pleased to present the first-ever GAO/PCIE Financial Audit Manual.

With passage of the Government Management and Reform Act of 1994, executive branch agencies (GAOs) and GAO shared statutory responsibility for auditing agency and government-wide consolidated financial statements, respectively. Since that time, GAO and the PCIE community have worked cooperatively to ensure that these audits are of the highest possible quality, cost-effectiveness, and cost-efficiency. This manual is a natural outgrowth of that cooperation. More importantly, the new manual represents our ongoing efforts to ensure that financial statements audits achieve their intended outcome of providing enhanced accountability over taxpayer-provided resources.

We extend our thanks to the many individuals and organizations that provided comments and insights to make the manual stronger. The Task Force assembled by GAO and the PCIE also deserves much credit for its dedication to completing this project.

  
Jeffrey C. Dworkin  
Managing Director  
U.S. General Accounting Office

  
The Honorable Gregory H. Friedman  
Chair, Audit Committee  
President's Council on Integrity  
and Efficiency

Version 1.0
How to Prepare for an Audit of Inventory and OM&S
L4-51

During the Audit Phase, the entity and its accounting records are audited to determine if the balances and related notes presented on its financial statements fairly represent the operations of the entity.

With the assistance of the DoD OIG, DoD reporting entities prepare detailed engagement letters requesting audit services. The auditors then require any management representations made to date that concern the items to be included in the audit. DoD reporting entities prepare as many interim management representation letters as necessary to include any additional assertions required by the audit. They then prepare a final management representation letter.

Management personnel address deficiencies with a written plan for resolution, including projected resolution date. The DoD OIG intervenes if necessary to end the audit and recommends a follow-up assessment upon indication that the audit may not have a favorable outcome.

The scope of the Audit Phase consists of accomplishing the audit steps outlined in the Testing Phase and Reporting Phase of the audit manual.

Let's look at a few of these steps.



## Audit (cont.)



### FAM Testing Phase,

#### Section 400:

- **The auditors consider the nature, timing, and extent of tests**
- **The tests must provide the greatest benefit for the least amount of time and resources**

400	TESTING PHASE
410	Overview
420	Consider the Nature, Timing, and Extent of Tests
430	Design Efficient Tests
440	Perform Tests and Evaluate Results
450	Sampling Control Tests
460	Compliance Tests
470	Substantive Tests – Overview
475	Substantive Analytical Procedures
480	Substantive Detail Tests
490	Documentation

The Testing Phase consists of a consideration of the nature, timing, and extent of tests to be performed on the evidentiary matter associated with the audit.

The auditor must design efficient tests that provide the greatest benefit for the least amount of time and resources. The auditor must then perform those tests and evaluate results.

Several types of testing are available and are explained within the FAM. The How to Manage Evidential Matter course provides additional information concerning audit testing methods.

Once testing is completed, the auditor must document the results in order to ensure that adequate audit procedures have been accomplished.

Let's look at the requirement for performing tests and evaluating results.



## Audit (cont.)



### FAM Testing Phase,

#### Section 400 (cont.):

- **Should evaluate the results of each type of test separately**
- **They are performed with the expectation of obtaining certain results may give other results**

#### Testing Phase

#### 440 - PERFORM TESTS AND EVALUATE RESULTS

- 01 The auditor should perform the planned tests and should evaluate the results of each type of test separately, without respect to whether the items were chosen as part of a multipurpose test. Guidance on performing and evaluating the results is presented for each type of test in the following sections
- Section 450 - Sampling control tests,
  - Section 460 - Compliance tests, and
  - Section 470 - Substantive tests.
- 02 Sometimes, tests performed with the expectation of obtaining certain results give other results. When this happens, the auditor may wish to expand a sample to test additional items. Unless planned for in advance, this generally cannot be done simply, as discussed in paragraphs 450.17, 460.02, and 480.28; the auditor should consult with the Statistician in such cases.

Version 1.0

How to Prepare for an Audit of Inventory and OM&S





L4-53

The FAM states that the auditor should perform the planned tests and should evaluate the results of each type of test separately, without respect to whether the items were chosen as part of a multipurpose test.

It states that sometimes, tests performed with the expectation of obtaining certain results give other results. When this happens, the auditor may wish to expand a sample to test additional items.

Unless planned for in advance, this generally cannot be done simply and the auditor should consult with a statistician.

Let's discuss the Reporting Phase now.



  <div>Audit (cont.)</div>  		
<b>FAM Reporting Phase, Section 500</b>	<b>500</b>	<b>REPORTING PHASE</b>
	510	Overview
	520	Perform Overall Analytical Procedures
	530	Determine Adequacy of Audit Procedures and Audit Scope
	540	Evaluate Misstatements
	550	Conclude Other Audit Procedures <ul style="list-style-type: none"> <li>• Inquiries of Attorneys</li> <li>• Subsequent Events</li> <li>• Management Representations</li> <li>• Related Party Transactions</li> </ul>
	560	Determine Conformity With Generally Accepted Accounting Principles
	570	Determine Compliance With GAO/PCIE Financial Audit Manual
	580	Draft Reports
Version 1.0 <span style="margin-left: 150px;">How to Prepare for an Audit of Inventory and OM&amp;S</span> <span style="float: right;">L4-54</span>		

The Reporting Phase requires the auditor to perform overall analytical procedures. This does not mean that all testing must be re-done, but that the results of all of the testing must be analyzed in order to formulate conclusions. The auditor must also determine the adequacy of audit procedures and the audit scope in the formulation of these conclusions.



Misstatements may affect the overall opinion of the auditor. Other audit procedures include inquiries of the attorneys who represent the entity. Auditors determine whether there are any pending liabilities that were not adequately disclosed in the notes to the financial statements.

The auditor must determine whether the presentation of the financial statements is in conformity with GAAP and whether the entity is in compliance with the FAM. The auditor then drafts reports on the financial statements, internal control, financial management systems, and compliance with laws and regulations. The draft reports are used during the discussion of audit findings during the exit conference, though most are addressed throughout the audit.

Let's expand on the drafting of these reports.

## Audit (cont.)

**FAM Reporting Phase,  
Section 500 (cont.):**

**The auditors report  
include conclusions on:**

- **Financial statements**
- **Internal control**
- **Compliance with laws,  
requirements, and  
standards**

**Reporting Phase**

**580 - DRAFT REPORTS**

.01 At the conclusion of the audit, the auditor finalizes the draft of the auditor's report(s), which includes the auditor's conclusions on

- the financial statements (see paragraphs 580.10-.31);
- internal control (see paragraphs 580.32-.61);
- whether the financial management systems substantially comply with the requirements of FFMA: federal financial management systems requirements, federal accounting standards (GAAP), and the SGL at the transaction level (see paragraphs 580.62-.66); and
- compliance with laws and regulations (see paragraphs 580.67-.75);
- the MD&A (see requirements in SFFAS No. 15) and other information included in the Accountability Report (including RSSI) (see paragraphs 580.76-.81).

.02 The auditor's report should clearly identify the entity audited, the Accountability Report on which the auditor is reporting, and the period covered by the Accountability Report.

.03 The report should be dated as of the completion of fieldwork. If a subsequent event occurs after that time that requires disclosure in the report, the auditor should follow the guidance in AU 530 with respect to dating the

Version 1.0
How to Prepare for an Audit of Inventory and OM&S
L4-55

At the conclusion of the audit, the auditor finalizes the draft of the reports. They include the auditor's conclusions on the financial statements, internal control, and system compliance with requirements of the FFMA, federal financial management systems requirements, federal accounting standards, and the United States Government Standard General Ledger (USSGL) at the transaction level.

They also include the auditor's conclusions on the entity's compliance with laws and regulations.

The auditor's report should clearly identify the entity audited, the accountability report on which the auditor is reporting, and the period covered by the accountability report. The report should be dated as of the completion of fieldwork.

Let's consider a few helpful practices.



## Audit (cont.)



### **Best Practices during the Conduct of the Audit**

- **Entrance conferences are planned**
- **Communications with POCs and employees maintained**
- **Information is consistently monitored and tracked**
- **Exit conference held to discuss audit report**

These practices are particularly helpful during the conduct of an audit.

An audit should contain no surprises. Once you have engaged an auditor, you must plan for the entrance conference. Ensure that adequate and knowledgeable staff is available, that adequate time is scheduled without interruption, and that a congenial atmosphere is maintained. Be familiar with the areas to be audited and know the procedures used to test those areas.

You must communicate audit requirements with your POCs and employees to ensure a smooth audit process. Knowledgeable personnel must be available to the auditor throughout the audit. By having a proper escort, the auditor's questions are likely to be answered correctly, and there is less likelihood of delays in the conduct of the audit.

Once the audit is concluded, there should be an exit conference held for the auditors to discuss the audit report with senior management.

Information obtained in the audit process should be monitored, appropriately cataloged, and filed for immediate or later action.

Now let's look at required reporting.



## Reporting



**Management's reporting requirements include initiatives to:**

- **Improve program and financial management**
- **Accelerate reporting**
- **Assess the effectiveness and efficiency of program operations**

We have just discussed the reporting requirements for the audit of financial statements, now let's discuss management reporting required by OMB Circular A-123 and Appendix A.

Internal control includes the plan of organization, methods, and procedures adopted by management to meet its goals. It includes processes for planning, organizing, directing, controlling, and reporting on agency operations. Recent government-wide initiatives have been implemented to improve program and financial management, including tracking corrective actions for material weaknesses, imposing accelerated reporting due dates for more timely financial information, and assessing the effectiveness and efficiency of program operations.

According to OMB Circular A-123, management must annually provide assurances on internal control in its PAR, including a separate assurance on internal control over financial reporting, along with a report on identified material weaknesses and corrective actions.

The assurance statements and information related to Section 2, Section 4, and internal control over financial reporting are provided in a single Federal Manager's Financial Integrity Act (FMFIA) report section of the annual PAR labeled Management Assurances. This section includes the annual assurance statements, summary of material weaknesses and non-conformances, and summary of corrective action plans. Management's assurance statement relating to internal control over financial reporting and any related material weaknesses and corrective actions is separately identified.

OMB Circular A-123 and Appendix A consolidates many of these reporting requirements.



## Reporting (cont.)



### Best Practices for Reporting

- **Report information consistently**
  - In accordance with OMB Circular A-123 and Appendix A
  - In accordance with OMB Circular A-127
- **Make reporting an ongoing process, not just annually**
- **Continuously monitor and improve internal control**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

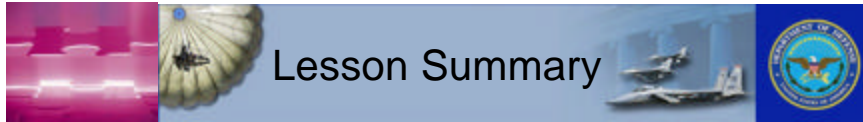
L4-58

To ensure that applicable information is available on whether the agency's controls are achieving their intended objectives, on material weaknesses in the agency's controls, and on whether the agency's financial management systems conform with government-wide requirements, you must report information consistently in accordance with OMB Circular A-123 and Appendix A, which incorporates Section 2 of the FMFIA, and OMB Circular A-127, Financial Management Systems, which incorporates Section 4 of the FMFIA.

This requires that you make financial management an ongoing process, not just annually. Agency managers who continuously monitor and improve the effectiveness of internal control associated with their programs have established the foundation that provides the basis for the agency head's annual assessment of and report on internal control.

Let's summarize what we learned in this lesson.





- **Roles and Responsibilities**
- **Financial Improvement Initiative Business Rules**
- **Discovery and Correction Phase**
- **Validation Phase**
- **Assertion Phase**
- **Assessment Phase**
- **Audit Phase**
- **Reporting**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

L4-59

In this lesson, you learned roles and responsibilities of DFAS, managers, auditors, audit liaison, and the reporting entities as they relate to the audit process.

We re-emphasized the importance of the 13 step valuation process for the valuation of OM&S. You learned about the importance of communications, and the availability of documentation to support the OM&S transactions that impact your entity's financial statements.

We discussed the Financial Improvement Initiative Business Rules and the five associated phases which started with the Discovery and Correction phase through the final phase which is the Audit Phase.

The following slide lists the references available for additional information.



## References



**GAO/PCIE FAM:**

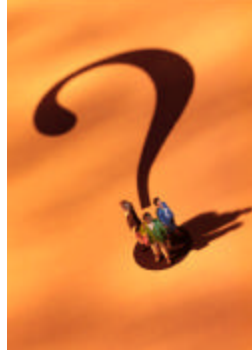
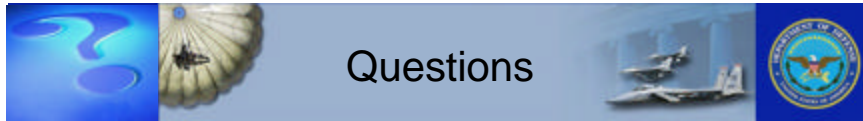
**<http://www.gao.gov/special.pubs/gaopcie>**

**PAR:**

**<http://www.defenselink.mil/comptroller/par>**

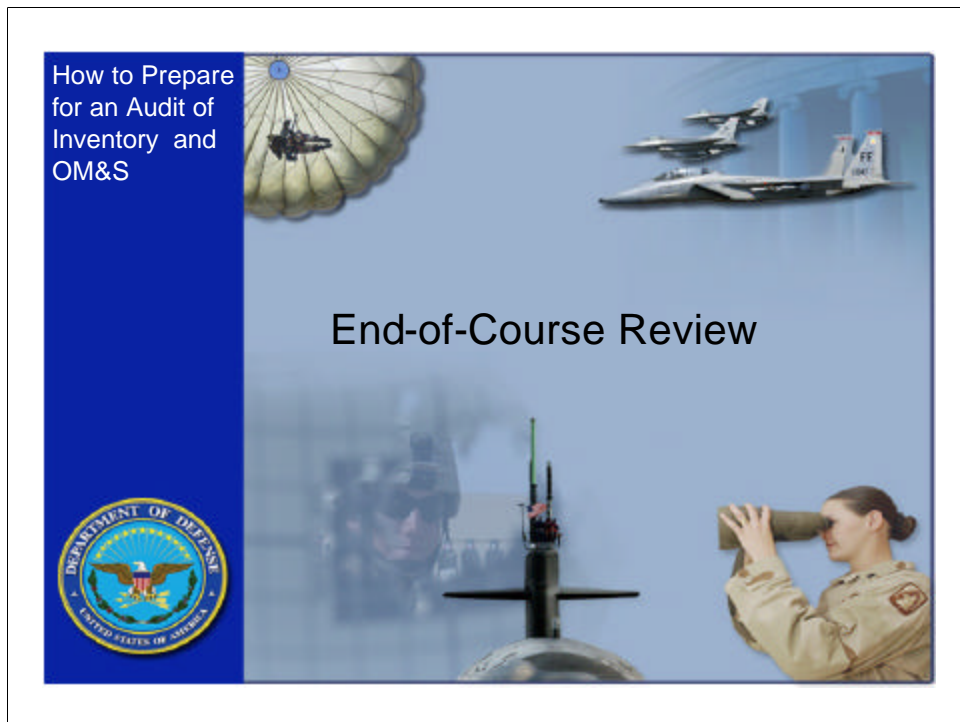
**OMB Circulars:**

**<http://www.whitehouse.gov/omb/bulletins>**



Before we move on to the End-of-Course Review, do you have any questions on the material covered in this lesson?

**This page intentionally left blank.**



This course is designed to help you understand how to prepare for an audit of inventory and related property which includes OM&S, related to the Department's annual audited financial statements.

We identified the components of inventory and OM&S and discussed inventory and OM&S on the Department's financial statements.

We discussed the importance of documenting inventory held for sale and the requirement for maintaining adequate supporting documentation for these transactions.

You learned about the importance of supporting documentation for OM&S transactions and establishing audit trails.

We discussed some of the tools used to prepare for an audit of inventory and OM&S and the importance of the Financial Improvement Initiative Business Rules.

Let's summarize Lesson 1.



## End-of-Course Review



### **Lesson 1, Identifying Critical Components of Inventory and OM&S**

- **Federal Accounting Standards Advisory Board**
- **Categories of Inventory and OM&S**
- **Legal and Regulatory Requirements**
- **Proof of Statements and Checklist Integrity**
- **Displaying/Disclosing on Financial Statements**
- **DoD Material Deficiencies**
- **Property in the Possession of Contractors**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

R-2

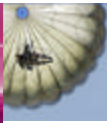
In Lesson 1, Identifying Critical Components of Inventory and OM&S, you learned about the mission of the Federal Accounting Standards Advisory Board (FASAB) which provides accounting guidance for inventory and OM&S.

We discussed the categories of inventory and related property as reflected in the financial statements notes. We mentioned how Congress enacts laws such as the Federal Managers Financial Integrity Act (FMFIA), Government Performance and Results Act (GPRA), and the Chief Financial Officers (CFO) Act. We discussed the importance of checklists, Standard Operating Procedures (SOPs), and supporting documentation for inventory and OM&S.

We analyzed the Balance Sheet and Note 9 from the auditor's perspective, and discussed specific documentation that supports the accompanying notes. You learned about the four types of audit opinions: unqualified, qualified, adverse, and disclaimer.

We discussed the DoD Performance and Accountability Report (PAR) that outlines the Department's mission, and the section in the Management Discussion and Analysis (MDA) that pertains to financial statement deficiencies and the related corrective actions. We discussed the requirements for contractors in possession of government property as outlined in the Federal Acquisition Regulation (FAR) and the Department of Defense Financial Management Regulation (DoDFMR).

Let's continue with Lesson 2.



## End-of-Course Review (cont.)



### **Lesson 2, Documenting Inventory**

- **Proper Source Documentation**
- **Inventory Audit Trails**
- **File Maintenance**
- **Audit Folders**
- **Methods of Inventory Valuations**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

R-3

In Lesson 2, Documenting Inventory, we learned about the various types of supporting documentation such as receiving reports, contracts, invoices, and the different Standard Forms (SF) and Department of Defense (DD) Forms. We learned that this documentation is important in order to properly establish an audit trail.

We discussed the five categories of management assertions and their relationship to the Department's financial statements. We learned about what constitutes an inventory and the related guidance in the DoDFMR.

We identified some of the tools used to maintain reports and documentation such as Electronic Document Access (EDA), Electronic Document Management (EDM), and On-Line Report View (OLRV).

We mentioned the Office of the Under Secretary of Defense, Comptroller (OUSD(C)) memorandum, regarding the preferred method of Moving Average Cost (MAC) for the valuation of inventory and the cost of goods sold.

Lastly, we discussed the 13 steps that are critical for establishing an inventory baseline valuation.

Let's continue with Lesson 3.



## End-of-Course Review (cont.)



### **Lesson 3, Documenting Transactions for OM&S**

- **Proper Source Documentation**
- **OM&S Audit Trails**
- **File Maintenance**
- **Audit Folders**
- **Methods of OM&S Valuations**
- **Differences between Inventory and OM&S**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

R-4

In Lesson 3, Documenting Transactions for OM&S, we discussed the various types of supporting documentation such as the various types of SF and DD forms in addition to contracts, invoices, and receiving reports.

We discussed the five categories of management assertions and their relationship to the Department's financial statements. You learned about the three categories of OM&S and how they are valued.

We provided information on the importance of audit trails for OM&S transactions and the establishment of audit folders. We discussed tools such as EDA, EDM, and OLRV that can be used for retrieving OM&S information.

We discussed how the MAC method is the preferred method for valuing OM&S, according to the OUSD(C) memorandum. And lastly, we defined the valuation differences between inventory and OM&S.

Let's continue with Lesson 4.





## End-of-Course Review (cont.)



### **Lesson 4, Tools to Prepare for Audits of Inventory and OM&S**

- **Roles and Responsibilities**
- **Discovery and Correction**
- **Validation**
- **Assertion**
- **Assessment**
- **Audit**
- **Reporting**

Version 1.0

How to Prepare for an Audit of Inventory and OM&S

R-5

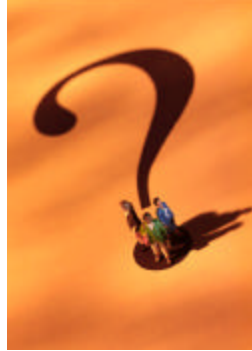
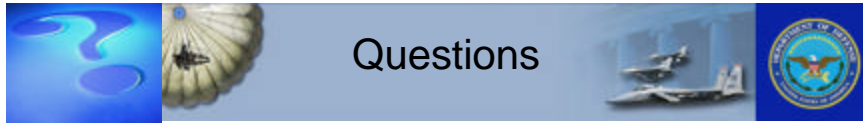
In Lesson 4, Tools to Prepare for Audits of Inventory and OM&S, we discussed the roles and responsibilities of the auditors, audit liaison, managers, and other Defense Agencies, such as DFAS, as they relate to the audit of the Department's financial statements.

The importance of the 13 steps for the valuation of inventory was re-emphasized. We discussed the importance of communications, and the availability of evidential matter to support OM&S transactions that impact on the Department's financial statements.

The Financial Improvement Initiative Business Rules were discussed.

We provided detail information on the different phases: Discovery and Correction, Validation, Assertion, Assessment, and the Audit.

Lastly, we reviewed the reporting requirements according to the OMB Circular A-123 and Appendix A, and OMB Circular A-127.



Before we move on to the examination, are there any final questions?

## Appendix A. Glossary

This glossary should serve as a reference tool for DoD personnel who need an understanding of inventory and OM&S terminology. It is not all-inclusive and reflects both acronyms and terms introduced throughout this course.

<b>AC</b>	Actual Cost
<b>Acquisition</b>	The act of acquiring items such as hardware, supplies, or services through purchase, lease, or other means, including transfer or fabrication, whether the supplies or services are already in existence or must be created, developed, demonstrated, and evaluated
<b>Acquisition Cost</b>	The amount (net of both trade and cash discount), of paid for property, plus transportation costs and other ancillary costs
<b>AcSEC</b>	Accounting Standards Executive Committee (of the AICPA)
<b>AICPA</b>	American Institute of Certified Public Accountants
<b>AIPS</b>	American Institute of Professional Standards
<b>AOR</b>	Accumulated Operating Results
<b>AR</b>	Army Regulation
<b>ASBL</b>	Accounting Service Business Line
<b>Assertion</b>	Explicit and implicit information provided by management that attests to the represented financial position or results of operations
<b>Assertion Letter</b>	A representation by management that a financial statement or line item is ready for audit
<b>Asset</b>	Property owned by an entity that is classified in several ways, including assets that are tangible and intangible. While tangible assets are more easily defined, intangible assets are those long-lived assets useful in the operation of entity that are not held for sale and have no physical qualities. Examples of intangible assets include patents, copyrights, franchises, trademarks, trade names, and goodwill.
<b>Attestation</b>	Attestation is the act of watching someone sign a legal document, such as a will, and then signing your own name as a witness. When you witness a document in this way, you are attesting – that is, stating and confirming that the person whom you watched sign the document in fact did so.

<b>Audit Ready</b>	The condition where underlying data is auditable and the staff is ready to support that data in an audit process.
<b>Audit Risk</b>	The risk taken when an auditor unknowingly fails to modify his or her opinion appropriately on financial statements that are materially misstated.
<b>Audit Trail</b>	Chain of evidence provided by coding, cross-references, and documentation connecting account balances and other summary results with original transaction data
<b>Auditable</b>	Condition where underlying data and procedures are sufficient, accurate, testable, and reliable enough for an auditor to obtain a basis for forming an unqualified opinion.
<b>AWS</b>	Automated Warehouse System
<b>Best Practice</b>	Process or procedure that can be used as a good example for others in a similar organization
<b>BMMP</b>	Business Management Modernization Program
<b>Capitalize</b>	To record and carry forward into one or more future periods any expenditure from which the benefits will then be realized.
<b>CFE</b>	Chief Financial Executive
<b>CFO</b>	The Chief Financial Officer is an organization's senior financial executive.
<b>CFO Act</b>	The Chief Financial Officers Act of 1990 is intended to improve financial management systems and information to produce timely, reliable, and comprehensive financial information.
<b>CFOC</b>	The Chief Financial Officers Council is an organization of the CFOs and Deputy CFOs of the largest federal agencies, senior officials of the Office of Management and Budget, and the Department of the Treasury, who work collaboratively to improve financial management in the U.S. government.
<b>Completeness Assertion</b>	Assertion about whether all transactions and accounts that should be presented in the financial statements are included in the statements.
<b>Compliance</b>	Conformity to the rule of law, standard practice, or specified procedure
<b>CPA</b>	Certified Public Accounting/Certified Public Accountant
<b>Cycle Memorandum</b>	Depiction in words and/or a diagram form of the activities relating to a particular type of transaction such as the revenue cycle, expenditure cycle, financing cycle, personnel services cycle, or production cycle

<b>D.C.</b>	District of Columbia
<b>DD</b>	Department of Defense (form)
<b>DeCA</b>	The Defense Commissary Agency delivers benefits to the Armed Services community to enhance recruiting, retention and readiness, and provides savings, products, and services.
<b>Deficiency</b>	In an audit, the term deficiency describes a lack in adequate competence, readiness, knowledge, or means. It may be synonymous with fault.
<b>DFAS</b>	The Defense Finance and Accounting Service provides professional finance and accounting services for the DoD.
<b>DISA</b>	Defense Information Systems Agency
<b>Disclosure</b>	Disclosure is the act of making something known to the public, as in disclosing the financial position of an entity through the publishing of its financial statements and accompanying notes.
<b>DLA</b>	The Defense Logistics Agency provides worldwide logistics support for the missions of the Military Departments and the Unified Combatant Commands under conditions of peace and war. It also provides logistics support to other DoD components and certain federal agencies, foreign governments, international organizations, and others as authorized.
<b>DNSC</b>	Defense National Stockpile Center
<b>DoD</b>	Department of Defense (also referred to as the Department)
<b>DoD OIG</b>	Department of Defense Office of the Inspector General
<b>DoDFMR</b>	Department of Defense Financial Management Regulation
<b>DRMO</b>	Defense Reutilization and Marketing Office
<b>DSSN</b>	Disbursing Station Symbol Number
<b>DWASP</b>	DLA Warehousing and Shipping Procedures
<b>DWCF</b>	Defense Working Capital Fund
<b>EDA</b>	Electronic Document Access
<b>EDM</b>	Electronic Document Management

<b>EDM Autofax</b>	The EDM system is composed of different technologies, one being the EDM Autofax that allows users of the system to fax documents into EDM. The EDM Autofax system receives and processes them.
<b>End-Item</b>	Final combination of end-products, component parts, and/or materials that is capable of functioning independently
<b>Engagement</b>	The process of conducting an audit; the formal agreement to provide a service, as in an audit engagement letter or contract
<b>Entity</b>	An organization, unit, or body, such as a department, fund, agency, or section
<b>ESC</b>	Executive Steering Committee
<b>Evidential Matter</b>	Audit evidence that consists of underlying accounting data or financial records and all corroborating information available to an auditor
<b>Existence Assertion</b>	An assertion about whether assets or liabilities of an entity exist at a given date, and whether recorded transactions have occurred during a given period; also called existence occurrence
<b>FAM</b>	The Financial Audit Manual is a manual established by the GAO and the PCIE to ensure that the financial statement audits have their intended outcome.
<b>FAR</b>	Federal Acquisition Regulation
<b>FASAB</b>	The Federal Accounting Standards Advisory Board promulgates federal accounting standards after considering the financial and budgetary information needs of citizens, congressional oversight groups, executive agencies, and the needs of other users of federal financial information.
<b>FFMIA</b>	The Federal Financial Management Improvement Act builds on the CFO Act by emphasizing the need for agencies to have systems that can generate timely, accurate, and useful information with which to make informed decisions and to ensure accountability on an ongoing basis.
<b>FIFO</b>	First-in, First-out is a method used to value inventory.
<b>FIIBR</b>	The Financial Improvement Initiative Business Rules promote the achievement of an unqualified opinion on the Department's consolidated financial statements.
<b>FISCAM</b>	Federal Information System Controls Audit Manual

<b>FMFIA</b>	The Federal Managers Financial Integrity Act requires federal managers to establish a continuous process for evaluating, improving, and reporting on the internal control and accounting systems for which they are responsible. It further requires that, each year, the head of each executive agency subject to the Act shall submit a report to the President and Congress on the status of management controls and financial systems that protect the integrity of agency programs and administrative activities.
<b>FMR</b>	Financial Management Regulation
<b>FY</b>	Fiscal Year
<b>GAAP</b>	Generally accepted accounting principles are the common set of accounting principles, standards, and procedures, set by policy boards on the accepted ways of doing accounting.
<b>GAFS</b>	General Accounting and Finance System
<b>GAGAS</b>	Generally Accepted Government Auditing Standards
<b>GAO</b>	The Government Accountability Office, previously called the General Accounting Office, is an independent, nonpartisan agency that works for Congress. The GAO is often called the congressional watchdog because it investigates how the federal government spends taxpayers' dollars.
<b>GAO/PCIE</b>	Government Accountability Office/President's Council on Integrity and Efficiency
<b>GF</b>	General Fund
<b>GMRA</b>	The Government Management Reform Act of 1994 updated the CFO Act by setting standards for the effectiveness of financial management reporting.
<b>GPRA</b>	The Government Performance and Results Act of 1993 was enacted to improve federal program effectiveness and public accountability by promoting a new focus on results, service quality, and customer satisfaction.
<b>GRS</b>	The General Records Schedule is issued by the Archivist of the United States to provide disposition authorization for records common to several or all agencies of the federal government.
<b>GSA</b>	General Services Administration
<b>Historical Cost</b>	Describes the original cost of an asset at the time of purchase or payment, as opposed to its saleable value, replacement value, or value in present or alternative use

<b>IAPS</b>	Integrated Accounts Payable System
<b>IAW</b>	In accordance with
<b>ICP</b>	Inventory Control Point
<b>IG</b>	Inspector General
<b>Internal Control</b>	Processes that are designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, compliance with applicable laws and regulations, and the effectiveness and efficiency of operations
<b>Internal Review</b>	An inspection of processes and data of an entity by personnel employed by or internal to the entity
<b>Inventory Accounting</b>	Establishment and maintenance of accounts for material in storage, in manufacturing process, on hand, in transit, or on consignment in terms of cost or quantity. The accounting process includes maintenance of supporting records and rendition of reports when required. Specific types of inventory accounting are detail, summary, financial, and item accounting.
<b>Inventory Adjustments</b>	Changes made to the official accountability record when physical counts and official records do not agree. All such changes require specific approval and documentation to support the adjustment, normally to include results of reconciliation efforts to determine and resolve the cause of such disagreement.
<b>IPA</b>	Independent Public Accountant
<b>JFMIP</b>	The Joint Financial Management Improvement Program is a joint and cooperative undertaking of the Department of the Treasury, the GAO, the OMB, and the OPM working in cooperation with each other and other agencies to improve financial management practices in government.
<b>JV</b>	Journal Voucher
<b>LAC</b>	The Latest Acquisition Cost is a method used to value inventory.
<b>LCM</b>	The Lower of Cost or Market is a method used to value inventory.
<b>MAC</b>	Moving Average Cost is a method used to value inventory.
<b>Materiality</b>	In an audit, materiality refers to the degree of importance or consequence.



<b>MDA</b>	The Management Discussion and Analysis section, found on financial statements, allows management to discuss aspects of an entity's financial statement that may be otherwise difficult to locate. It provides a summary and more.
<b>MIRR</b>	Material Inspection and Receiving Report
<b>N/A</b>	Not Applicable
<b>NARA</b>	The National Archives and Records Administration ensures for the citizens and the public servant, for the President, Congress, and Courts, ready access to essential evidence.
<b>No.</b>	Number
<b>NRV</b>	The Net Realizable Value is a method used to value inventory.
<b>NSN</b>	National Stock Number
<b>OFFM</b>	The Office of Federal Financial Management was created within the OMB by the CFO Act of 1990. It is responsible for the financial management policy of the federal government including implementing the financial management improvement priorities of the President, establishing government-wide financial management policies of executive agencies, and carrying out the financial management functions of the CFO Act.
<b>OM&amp;S</b>	Operating Materials and Supplies
<b>OMB</b>	The Office of Management and Budget assists the President in overseeing the preparation of the federal budget and supervises its administration in Executive Branch agencies.
<b>OLRV</b>	On-Line Report View
<b>OUSD</b>	Office of the Under Secretary of Defense
<b>OUSD(C)</b>	Office of the Under Secretary of Defense (Comptroller)
<b>P&amp;EP</b>	Property and Equipment Policy
<b>PAR</b>	Performance Accountability Report
<b>PBAS</b>	Program Budget Accounting System
<b>PBC</b>	A Prepared by Client list facilitates the audit process by coordination with POCs for specific requests.

<b>PCIE</b>	The President's Council on Integrity and Efficiency was established to address integrity, economy, and effectiveness issues that transcend individual government agencies, and increase the professionalism and effectiveness of Inspector General personnel throughout the government.
<b>Perpetual Inventory Measurement System</b>	A perpetual inventory system is one in which the inventory quantities and values for all purchases and issues are recorded directly in the inventory system as they occur.
<b>Physical Inventory</b>	A physical inventory is the verification of the existence, location, and quantity of property items that may involve verifying additional information.
<b>PMA</b>	The President's Management Agenda is an aggressive strategy for improving the management of the federal government that focuses on five areas of management weaknesses across the government where improvements and the most progress can be made.
<b>POC</b>	Point of Contact
<b>PP&amp;E</b>	Property, Plant, and Equipment
<b>Property Record</b>	Any stock record account, to include an organization's and installation's property, clothing and equipment records, hand receipts, or any system of files that support and/or document property accountability.
<b>Qualified Opinion</b>	An auditor's opinion stating that except for the effects of the matters to which the qualification relates, the financial statements present the position of the organization fairly
<b>Readiness</b>	See Audit Ready
<b>Reasonable Assurance</b>	Assurance that a reasonable person can reach the same conclusion given the same data and circumstances; not an absolute certainty
<b>Recognition</b>	Recognition occurs upon transfer of title to the Department or upon receipt of the item.
<b>RFA</b>	Ready for Audit
<b>Rights and Obligations Assertion</b>	An assertion about whether assets are the rights of the entity, and liabilities are the obligations for the entity, at a given date
<b>RIPR</b>	Real Property Inventory Requirements

<b>ROS</b>	Report of Survey
<b>RPC</b>	Review and Prioritization Committee
<b>RPS</b>	Review and Prioritization Subcommittee
<b>SABRS</b>	Standard Accounting, Budget, and Reporting System
<b>SAS</b>	Statements of Accounting Standards
<b>SDA</b>	Standard Distribution System (Army)
<b>SECDEF</b>	Secretary of Defense
<b>SF</b>	Standard Form
<b>SFFAC</b>	Statement of Federal Financial Accounting Concepts
<b>SFFAS</b>	The Statement of Federal Financial Accounting Standards is the standards issued by FASAB to implement the GAAP for the federal government.
<b>SGL</b>	Standard General Ledger
<b>SOMARDS</b>	Standard Operation and Maintenance, Army Research and Development System
<b>SOP</b>	Standard Operating Procedure
<b>Source Documentation</b>	Documents representing authorization for transactions and associated with transaction data that include contracts, invoices, funding authorizations, bills of lading, receiving reports, titles, mortgages or notes, leases, agreements, appointments, signature cards, policies, and others
<b>SP</b>	Standard Price
<b>STANFINS</b>	Standard Finance System
<b>STARS</b>	Standard Accounting and Reporting System
<b>Systemic</b>	Describes a problem involving one or more financial reporting systems that results in an inability to provide accurate, reliable, or timely financial data.
<b>U.S.</b>	United States
<b>Unqualified Opinion</b>	An auditor's opinion that is without any material exception as to a general statement of reliability of the items specified within the limits of an audit
<b>USD</b>	Under Secretary of Defense

<b>USD(C)</b>	Under Secretary of Defense (Comptroller)
<b>USSGL</b>	The United States Government Standard General Ledger provides a uniform Chart of Accounts and technical guidance to be used in standardizing federal agency accounting.
<b>Validation</b>	The corroboration, substantiation, or confirmation of relevant or meaningful information, supported by objective truth or generally accepted authority.
<b>WARS</b>	World-wide Ammunition Reporting System
<b>WAWF</b>	Wide Area Workflow
<b>WCF</b>	The Working Capital Fund was established to be self-sustaining where products or services are produced and sold to recover the full cost of operations.

---

---

## Appendix B. Sample Source Documentation

---

This appendix includes samples of forms used by entities that maintain documentation of inventory and OM&S. These forms may be reviewed by auditors during the audit process.

Form Number and Title	Page
DD Form 200, Financial Liability Investigation of Property Loss (Front)	B-2
DD Form 200, Financial Liability Investigation of Property Loss (Back)	B-3
DD Form 250, Material Inspection and Receiving Report	B-4
DD Form 1155, Order for Supplies or Services	B-5
DD Form 1348-1A, Issue Release/Receipt Document	B-6
SF 1449, Solicitation/Contract/Order for Commercial Items (Front)	B-7
SF 1449, Solicitation/Contract/Order for Commercial Items (Back)	B-8

<b>FINANCIAL LIABILITY INVESTIGATION OF PROPERTY LOSS</b>				
<b>PRIVACY ACT STATEMENT</b>				
<b>AUTHORITY:</b> 10 USC 2775; DoD Directive 7200.11; EO 9397.		<b>ROUTINE USE(S):</b> None.		
<b>PRINCIPAL PURPOSE(S):</b> To officially report the facts and circumstances supporting the assessment of financial charges for the loss, damage, or destruction of DoD-controlled property. The purpose of soliciting the SSN is for positive identification.		<b>DISCLOSURE:</b> Voluntary; however, refusal to explain the circumstances under which the property was lost, damaged, or destroyed may be considered with other factors in determining if an individual will be held financially liable.		
<b>1. DATE INITIATED (YYYYMMDD)</b>	<b>2. INQUIRY/INVESTIGATION NUMBER</b>		<b>3. DATE LOSS DISCOVERED (YYYYMMDD)</b>	
<b>4. NATIONAL STOCK NO.</b>	<b>5. ITEM DESCRIPTION</b>	<b>6. QUANTITY</b>	<b>7. UNIT COST</b>	<b>8. TOTAL COST</b> 0.00
<b>9. CIRCUMSTANCES UNDER WHICH PROPERTY WAS (X one)</b> <i>(Attach additional pages as necessary)</i>		<input type="checkbox"/> LOST	<input type="checkbox"/> DAMAGED	<input type="checkbox"/> DESTROYED
<b>10. ACTIONS TAKEN TO CORRECT CIRCUMSTANCES REPORTED IN BLOCK 9 AND PREVENT FUTURE OCCURRENCES</b> <i>(Attach additional pages as necessary)</i>				
<b>11. INDIVIDUAL COMPLETING BLOCKS 1 THROUGH 10</b>				
a. ORGANIZATIONAL ADDRESS <i>(Unit Designation, Office Symbol, Base, State/Country, Zip Code)</i>		b. TYPED NAME <i>(Last, First, Middle Initial)</i>		c. DSN NUMBER
		d. SIGNATURE		e. DATE SIGNED
<b>12. (X one)</b>	<b>RESPONSIBLE OFFICER (PROPERTY RECORD ITEMS)</b>		<b>REVIEWING AUTHORITY (SUPPLY SYSTEM STOCKS)</b>	
a. NEGLIGENCE OR ABUSE EVIDENT/SUSPECTED <i>(X one)</i> <input type="checkbox"/> YES <input type="checkbox"/> NO	b. COMMENTS/RECOMMENDATIONS			
c. ORGANIZATIONAL ADDRESS <i>(Unit Designation, Office Symbol, Base, State/Country, Zip Code)</i>		d. TYPED NAME <i>(Last, First, Middle Initial)</i>		e. DSN NUMBER
		f. SIGNATURE		g. DATE SIGNED
<b>13. APPOINTING AUTHORITY</b>				
a. RECOMMENDATION <i>(X one)</i> <input type="checkbox"/> APPROVE <input type="checkbox"/> DISAPPROVE	b. COMMENTS/RATIONALE			c. FINANCIAL LIABILITY OFFICER APPOINTED <i>(X one)</i> <input type="checkbox"/> YES <input type="checkbox"/> NO
d. ORGANIZATIONAL ADDRESS <i>(Unit Designation, Office Symbol, Base, State/Country, Zip Code)</i>		e. TYPED NAME <i>(Last, First, Middle Initial)</i>		f. DSN NUMBER
		g. SIGNATURE		h. DATE SIGNED
<b>14. APPROVING AUTHORITY</b>				
a. RECOMMENDATION <i>(X one)</i> <input type="checkbox"/> APPROVE <input type="checkbox"/> DISAPPROVE	b. COMMENTS/RATIONALE			c. LEGAL REVIEW COMPLETED IF REQUIRED <i>(X one)</i> <input type="checkbox"/> YES <input type="checkbox"/> NO <input type="checkbox"/> N/A
d. ORGANIZATIONAL ADDRESS <i>(Unit Designation, Office Symbol, Base, State/Country, Zip Code)</i>		e. TYPED NAME <i>(Last, First, Middle Initial)</i>		f. DSN NUMBER
		g. SIGNATURE		h. DATE SIGNED

DD FORM 200, OCT 1999

PREVIOUS EDITION IS OBSOLETE.

<b>15. FINANCIAL LIABILITY OFFICER</b>			
a. FINDINGS AND RECOMMENDATIONS <i>(Attach additional pages as necessary)</i>			
b. DOLLAR AMOUNT OF LOSS		c. MONTHLY BASIC PAY	d. RECOMMENDED FINANCIAL LIABILITY
e. ORGANIZATIONAL ADDRESS <i>(Unit Designation, Office Symbol, Base, State/Country, Zip Code)</i>		f. TYPED NAME <i>(Last, First, Middle Initial)</i>	
		g. DSN NUMBER	
		h. DATE REPORT SUBMITTED TO APPOINTING AUTHORITY <i>(YYYYMMDD)</i>	
		i. DATE APPOINTED <i>(YYYYMMDD)</i>	j. DATE SIGNED
		j. SIGNATURE	k. DATE SIGNED
<b>16. INDIVIDUAL CHARGED</b>			
a. I HAVE EXAMINED THE FINDINGS AND RECOMMENDATIONS OF THE FINANCIAL LIABILITY OFFICER AND <i>(X one)</i>			
<input type="checkbox"/> Submit the attached statement of objection. <input type="checkbox"/> Do not intend to make such a statement.			
b. I HAVE BEEN INFORMED OF MY RIGHT TO LEGAL ADVICE. MY SIGNATURE IS NOT AN ADMISSION OF LIABILITY.			
c. ORGANIZATIONAL ADDRESS <i>(Unit Designation, Office Symbol, Base, State/Country, Zip Code)</i>		d. TYPED NAME <i>(Last, First, Middle Initial)</i>	
		e. SOCIAL SECURITY NUMBER	
f. DSN NUMBER		g. SIGNATURE	h. DATE SIGNED
<b>17. ACCOUNTABLE OFFICER</b>			
a. DOCUMENT NUMBER(S) USED TO ADJUST PROPERTY RECORD			
b. ORGANIZATIONAL ADDRESS <i>(Unit Designation, Office Symbol, Base, State/Country, Zip Code)</i>		c. TYPED NAME <i>(Last, First, Middle Initial)</i>	
		d. DSN NUMBER	
		e. SIGNATURE	f. DATE SIGNED

DD FORM 200 (BACK), OCT 1999

<b>MATERIAL INSPECTION AND RECEIVING REPORT</b>										Form Approved OMB No. 0704-0248	
<p>The public reporting burden for this collection of information is estimated to average 30 minutes per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing the burden, to the Department of Defense, Executive Services and Communications Directorate (0704-0248). Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to any penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.</p> <p style="text-align: center;"><b>PLEASE DO NOT RETURN YOUR COMPLETED FORM TO THE ABOVE ORGANIZATION.</b>  <b>SEND THIS FORM IN ACCORDANCE WITH THE INSTRUCTIONS CONTAINED IN THE DFARS, APPENDIX F-401.</b></p>											
1. PROCUREMENT INSTRUMENT IDENTIFICATION (CONTRACT) NO.				ORDER NO.		6. INVOICE NO./DATE		7. PAGE OF		8. ACCEPTANCE POINT	
2. SHIPMENT NO.		3. DATE SHIPPED		4. B/L  TCN		5. DISCOUNT TERMS					
9. PRIME CONTRACTOR CODE				10. ADMINISTERED BY CODE							
11. SHIPPED FROM (If other than 9) CODE				FOB:		12. PAYMENT WILL BE MADE BY CODE					
13. SHIPPED TO CODE				14. MARKED FOR CODE							
15. ITEM NO.		16. STOCK/PART NO.		DESCRIPTION <i>(Indicate number of shipping containers - type of container - container number.)</i>		17. QUANTITY SHIP/REC'D*		18. UNIT	19. UNIT PRICE	20. AMOUNT	
<b>21. CONTRACT QUALITY ASSURANCE</b> <b>a. ORIGIN</b> <input type="checkbox"/> CQA <input type="checkbox"/> ACCEPTANCE of listed items has been made by me or under my supervision and they conform to contract, except as noted herein or on supporting documents.  DATE _____ SIGNATURE OF AUTHORIZED GOVERNMENT REPRESENTATIVE _____ TYPED NAME: _____ TITLE: _____ MAILING ADDRESS: _____  COMMERCIAL TELEPHONE NUMBER: _____						<b>b. DESTINATION</b> <input type="checkbox"/> CQA <input type="checkbox"/> ACCEPTANCE of listed items has been made by me or under my supervision and they conform to contract, except as noted herein or on supporting documents.  DATE _____ SIGNATURE OF AUTHORIZED GOVERNMENT REPRESENTATIVE _____ TYPED NAME: _____ TITLE: _____ MAILING ADDRESS: _____  COMMERCIAL TELEPHONE NUMBER: _____					
<b>22. RECEIVER'S USE</b> Quantities shown in column 17 were received in apparent good condition except as noted.  DATE RECEIVED _____ SIGNATURE OF AUTHORIZED GOVERNMENT REPRESENTATIVE _____ TYPED NAME: _____ TITLE: _____ MAILING ADDRESS: _____  COMMERCIAL TELEPHONE NUMBER: _____  <i>* If quantity received by the Government is the same as quantity shipped, indicate by (X) mark; if different, enter actual quantity received below quantity shipped and encircle.</i>											
<b>23. CONTRACTOR USE ONLY</b>          											

DD FORM 250, AUG 2000

PREVIOUS EDITION IS OBSOLETE.



ORDER FOR SUPPLIES OR SERVICES						PAGE 1 OF						
1. CONTRACT/PURCH ORDER/AGREEMENT NO.		2. DELIVERY ORDER/CALL NO.		3. DATE OF ORDER/CALL (YYYYMMDD)		4. REQUISITION/PURCH REQUEST NO.		5. PRIORITY				
6. ISSUED BY			CODE		7. ADMINISTERED BY (If other than 6)			CODE		8. DELIVERY FOB <input type="checkbox"/> DESTINATION <input type="checkbox"/> OTHER (See Schedule if other)		
9. CONTRACTOR			CODE		FACILITY		10. DELIVER TO FOB POINT BY (Date) (YYYYMMDD)			11. X IF BUSINESS IS <input type="checkbox"/> SMALL <input type="checkbox"/> SMALL DISADVANTAGED <input type="checkbox"/> WOMEN-OWNED		
NAME AND ADDRESS							12. DISCOUNT TERMS			13. MAIL INVOICES TO THE ADDRESS IN BLOCK		
14. SHIP TO			CODE		15. PAYMENT WILL BE MADE BY			CODE		MARK ALL PACKAGES AND PAPERS WITH IDENTIFICATION NUMBERS IN BLOCKS 1 AND 2.		
16. TYPE OF ORDER		DELIVERY/CALL		This delivery order/call is issued on another Government agency or in accordance with and subject to terms and conditions of above numbered contract.								
		PURCHASE		Reference your _____ furnish the following on terms specified herein.								
ACCEPTANCE. THE CONTRACTOR HEREBY ACCEPTS THE OFFER REPRESENTED BY THE NUMBERED PURCHASE ORDER AS IT MAY PREVIOUSLY HAVE BEEN OR IS NOW MODIFIED, SUBJECT TO ALL OF THE TERMS AND CONDITIONS SET FORTH, AND AGREES TO PERFORM THE SAME.												
NAME OF CONTRACTOR			SIGNATURE			TYPED NAME AND TITLE			DATE SIGNED (YYYYMMDD)			
<input type="checkbox"/> If this box is marked, supplier must sign Acceptance and return the following number of copies:												
17. ACCOUNTING AND APPROPRIATION DATA/LOCAL USE												
18. ITEM NO.		19. SCHEDULE OF SUPPLIES/SERVICES				20. QUANTITY ORDERED/ACCEPTED*		21. UNIT	22. UNIT PRICE		23. AMOUNT	
											\$0.00	
											\$0.00	
											\$0.00	
*If quantity accepted by the Government is same as quantity ordered, indicate by X. If different, enter actual quantity accepted below quantity ordered and encircle.						24. UNITED STATES OF AMERICA			25. TOTAL		\$0.00	
BY:						CONTRACTING/ORDERING OFFICER			26. DIFFERENCES			
27a. QUANTITY IN COLUMN 20 HAS BEEN												
<input type="checkbox"/> INSPECTED <input type="checkbox"/> RECEIVED <input type="checkbox"/> ACCEPTED, AND CONFORMS TO THE CONTRACT EXCEPT AS NOTED:												
b. SIGNATURE OF AUTHORIZED GOVERNMENT REPRESENTATIVE						c. DATE (YYYYMMDD)		d. PRINTED NAME AND TITLE OF AUTHORIZED GOVERNMENT REPRESENTATIVE				
e. MAILING ADDRESS OF AUTHORIZED GOVERNMENT REPRESENTATIVE						28. SHIP. NO.		29. D.O. VOUCHER NO.		30. INITIALS		
						<input type="checkbox"/> PARTIAL <input type="checkbox"/> FINAL		32. PAID BY		33. AMOUNT VERIFIED CORRECT FOR		
f. TELEPHONE NUMBER			g. E-MAIL ADDRESS			31. PAYMENT				34. CHECK NUMBER		
36. I CERTIFY THIS ACCOUNT IS CORRECT AND PROPER FOR PAYMENT.						<input type="checkbox"/> COMPLETE <input type="checkbox"/> PARTIAL <input type="checkbox"/> FINAL				36. BILL OF LADING NO.		
a. DATE (YYYYMMDD)		b. SIGNATURE AND TITLE OF CERTIFYING OFFICER										
37. RECEIVED AT		38. RECEIVED BY (Print)		39. DATE RECEIVED (YYYYMMDD)		40. TOTAL CONTAINERS		41. S/R ACCOUNT NUMBER		42. S/R VOUCHER NO.		

DD FORM 1155, DEC 2001

PREVIOUS EDITION IS OBSOLETE.

DD FORM 1348-1A, JUL 91										ISSUE RELEASE/RECEIPT DOCUMENT																																																																																																																																											
27. ADDITIONAL DATA					26. SIC (4-8) UI (23-24) QTY (25-29) CON CODE (71) DIST (55-56) UP (74-80)					25. NATIONAL STOCK NO. & ADD (8-22)					24. DOCUMENT NUMBER & SUFFIX (30-44)																																																																																																																																						
										<table border="1"> <tr> <td>1</td><td>2</td><td>3</td><td>4</td><td>5</td><td>6</td><td>7</td><td>8</td><td>9</td><td>10</td><td>11</td><td>12</td><td>13</td><td>14</td><td>15</td><td>16</td><td>17</td><td>18</td><td>19</td><td>20</td><td>21</td><td>22</td><td>23</td><td>24</td><td>25</td><td>26</td><td>27</td><td>28</td><td>29</td><td>30</td><td>31</td><td>32</td><td>33</td><td>34</td><td>35</td><td>36</td><td>37</td><td>38</td><td>39</td><td>40</td><td>41</td><td>42</td><td>43</td><td>44</td><td>45</td><td>46</td><td>47</td><td>48</td><td>49</td><td>50</td><td>51</td><td>52</td><td>53</td><td>54</td><td>55</td><td>56</td><td>57</td><td>58</td><td>59</td><td>60</td><td>61</td><td>62</td><td>63</td><td>64</td><td>65</td><td>66</td><td>67</td><td>68</td><td>69</td><td>70</td><td>71</td><td>72</td><td>73</td><td>74</td><td>75</td><td>76</td><td>77</td><td>78</td><td>79</td><td>80</td><td>81</td><td>82</td><td>83</td><td>84</td><td>85</td><td>86</td><td>87</td><td>88</td><td>89</td><td>90</td><td>91</td><td>92</td><td>93</td><td>94</td><td>95</td><td>96</td><td>97</td><td>98</td><td>99</td><td>00</td> </tr> <tr> <td colspan="10">QUANTITY</td> <td colspan="10">SUPPLIER ADDRESS</td> <td colspan="10">DATE</td> </tr> </table>										1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	QUANTITY										SUPPLIER ADDRESS										DATE									
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00																																																		
QUANTITY										SUPPLIER ADDRESS										DATE																																																																																																																																	
										<table border="1"> <tr> <td>1</td><td>2</td><td>3</td><td>4</td><td>5</td><td>6</td><td>7</td><td>8</td><td>9</td><td>10</td><td>11</td><td>12</td><td>13</td><td>14</td><td>15</td><td>16</td><td>17</td><td>18</td><td>19</td><td>20</td><td>21</td><td>22</td><td>23</td><td>24</td><td>25</td><td>26</td><td>27</td><td>28</td><td>29</td><td>30</td><td>31</td><td>32</td><td>33</td><td>34</td><td>35</td><td>36</td><td>37</td><td>38</td><td>39</td><td>40</td><td>41</td><td>42</td><td>43</td><td>44</td><td>45</td><td>46</td><td>47</td><td>48</td><td>49</td><td>50</td><td>51</td><td>52</td><td>53</td><td>54</td><td>55</td><td>56</td><td>57</td><td>58</td><td>59</td><td>60</td><td>61</td><td>62</td><td>63</td><td>64</td><td>65</td><td>66</td><td>67</td><td>68</td><td>69</td><td>70</td><td>71</td><td>72</td><td>73</td><td>74</td><td>75</td><td>76</td><td>77</td><td>78</td><td>79</td><td>80</td><td>81</td><td>82</td><td>83</td><td>84</td><td>85</td><td>86</td><td>87</td><td>88</td><td>89</td><td>90</td><td>91</td><td>92</td><td>93</td><td>94</td><td>95</td><td>96</td><td>97</td><td>98</td><td>99</td><td>00</td> </tr> <tr> <td colspan="10">UNIT PRICE</td> <td colspan="10">DOLLARS</td> <td colspan="10">CTS</td> </tr> </table>										1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	UNIT PRICE										DOLLARS										CTS									
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00																																																		
UNIT PRICE										DOLLARS										CTS																																																																																																																																	
										<table border="1"> <tr> <td>1</td><td>2</td><td>3</td><td>4</td><td>5</td><td>6</td><td>7</td><td>8</td><td>9</td><td>10</td><td>11</td><td>12</td><td>13</td><td>14</td><td>15</td><td>16</td><td>17</td><td>18</td><td>19</td><td>20</td><td>21</td><td>22</td><td>23</td><td>24</td><td>25</td><td>26</td><td>27</td><td>28</td><td>29</td><td>30</td><td>31</td><td>32</td><td>33</td><td>34</td><td>35</td><td>36</td><td>37</td><td>38</td><td>39</td><td>40</td><td>41</td><td>42</td><td>43</td><td>44</td><td>45</td><td>46</td><td>47</td><td>48</td><td>49</td><td>50</td><td>51</td><td>52</td><td>53</td><td>54</td><td>55</td><td>56</td><td>57</td><td>58</td><td>59</td><td>60</td><td>61</td><td>62</td><td>63</td><td>64</td><td>65</td><td>66</td><td>67</td><td>68</td><td>69</td><td>70</td><td>71</td><td>72</td><td>73</td><td>74</td><td>75</td><td>76</td><td>77</td><td>78</td><td>79</td><td>80</td><td>81</td><td>82</td><td>83</td><td>84</td><td>85</td><td>86</td><td>87</td><td>88</td><td>89</td><td>90</td><td>91</td><td>92</td><td>93</td><td>94</td><td>95</td><td>96</td><td>97</td><td>98</td><td>99</td><td>00</td> </tr> <tr> <td colspan="10">DOLLARS</td> <td colspan="10">CTS</td> <td colspan="10">MARK FOR</td> </tr> </table>										1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	DOLLARS										CTS										MARK FOR									
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00																																																		
DOLLARS										CTS										MARK FOR																																																																																																																																	
										<table border="1"> <tr> <td>1</td><td>2</td><td>3</td><td>4</td><td>5</td><td>6</td><td>7</td><td>8</td><td>9</td><td>10</td><td>11</td><td>12</td><td>13</td><td>14</td><td>15</td><td>16</td><td>17</td><td>18</td><td>19</td><td>20</td><td>21</td><td>22</td><td>23</td><td>24</td><td>25</td><td>26</td><td>27</td><td>28</td><td>29</td><td>30</td><td>31</td><td>32</td><td>33</td><td>34</td><td>35</td><td>36</td><td>37</td><td>38</td><td>39</td><td>40</td><td>41</td><td>42</td><td>43</td><td>44</td><td>45</td><td>46</td><td>47</td><td>48</td><td>49</td><td>50</td><td>51</td><td>52</td><td>53</td><td>54</td><td>55</td><td>56</td><td>57</td><td>58</td><td>59</td><td>60</td><td>61</td><td>62</td><td>63</td><td>64</td><td>65</td><td>66</td><td>67</td><td>68</td><td>69</td><td>70</td><td>71</td><td>72</td><td>73</td><td>74</td><td>75</td><td>76</td><td>77</td><td>78</td><td>79</td><td>80</td><td>81</td><td>82</td><td>83</td><td>84</td><td>85</td><td>86</td><td>87</td><td>88</td><td>89</td><td>90</td><td>91</td><td>92</td><td>93</td><td>94</td><td>95</td><td>96</td><td>97</td><td>98</td><td>99</td><td>00</td> </tr> <tr> <td colspan="10">DOLLARS</td> <td colspan="10">CTS</td> <td colspan="10">MARK FOR</td> </tr> </table>										1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	DOLLARS										CTS										MARK FOR									
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00																																																		
DOLLARS										CTS										MARK FOR																																																																																																																																	
										<table border="1"> <tr> <td>1</td><td>2</td><td>3</td><td>4</td><td>5</td><td>6</td><td>7</td><td>8</td><td>9</td><td>10</td><td>11</td><td>12</td><td>13</td><td>14</td><td>15</td><td>16</td><td>17</td><td>18</td><td>19</td><td>20</td><td>21</td><td>22</td><td>23</td><td>24</td><td>25</td><td>26</td><td>27</td><td>28</td><td>29</td><td>30</td><td>31</td><td>32</td><td>33</td><td>34</td><td>35</td><td>36</td><td>37</td><td>38</td><td>39</td><td>40</td><td>41</td><td>42</td><td>43</td><td>44</td><td>45</td><td>46</td><td>47</td><td>48</td><td>49</td><td>50</td><td>51</td><td>52</td><td>53</td><td>54</td><td>55</td><td>56</td><td>57</td><td>58</td><td>59</td><td>60</td><td>61</td><td>62</td><td>63</td><td>64</td><td>65</td><td>66</td><td>67</td><td>68</td><td>69</td><td>70</td><td>71</td><td>72</td><td>73</td><td>74</td><td>75</td><td>76</td><td>77</td><td>78</td><td>79</td><td>80</td><td>81</td><td>82</td><td>83</td><td>84</td><td>85</td><td>86</td><td>87</td><td>88</td><td>89</td><td>90</td><td>91</td><td>92</td><td>93</td><td>94</td><td>95</td><td>96</td><td>97</td><td>98</td><td>99</td><td>00</td> </tr> <tr> <td colspan="10">DOLLARS</td> <td colspan="10">CTS</td></tr></table>										1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	DOLLARS										CTS																			
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00																																																		
DOLLARS										CTS																																																																																																																																											

<b>SOLICITATION/CONTRACT/ORDER FOR COMMERCIAL ITEMS</b> <b>OFFEROR TO COMPLETE BLOCKS 12, 17, 23, 24, &amp; 30</b>					1. REQUISITION NUMBER	PAGE 1 OF
2. CONTRACT NO.	3. AWARD/EFFECTIVE DATE	4. ORDER NUMBER	5. SOLICITATION NUMBER	6. SOLICITATION ISSUE DATE		
7. FOR SOLICITATION INFORMATION CALL:		a. NAME		b. TELEPHONE NUMBER (No collect calls)		8. OFFER DUE DATE/ LOCAL TIME
9. ISSUED BY		CODE	10. THIS ACQUISITION IS			
			<input type="checkbox"/> UNRESTRICTED OR <input type="checkbox"/> SET ASIDE:     % FOR:			
			<input type="checkbox"/> SMALL BUSINESS <input type="checkbox"/> EMERGING SMALL BUSINESS			
			<input type="checkbox"/> HUBZONE SMALL BUSINESS <input type="checkbox"/> SERVICE-DISABLED VETERAN-OWNED SMALL BUSINESS <input type="checkbox"/> 8(A)			
11. DELIVERY FOR FOB DESTINATION UNLESS BLOCK IS MARKED		12. DISCOUNT TERMS		13a. THIS CONTRACT IS A RATED ORDER UNDER DPAS (15 CFR 700)		13b. RATING
<input type="checkbox"/> SEE SCHEDULE						14. METHOD OF SOLICITATION
15. DELIVER TO		CODE	16. ADMINISTERED BY		CODE	<input type="checkbox"/> RFQ <input type="checkbox"/> IFB <input type="checkbox"/> RFP
17a. CONTRACTOR/OFFEROR		CODE	FACILITY CODE	18a. PAYMENT WILL BE MADE BY		
				CODE		
TELEPHONE NO.						
<input type="checkbox"/> 17b. CHECK IF REMITTANCE IS DIFFERENT AND PUT SUCH ADDRESS IN OFFER				18b. SUBMIT INVOICES TO ADDRESS SHOWN IN BLOCK 18a UNLESS BLOCK BELOW IS CHECKED		
				<input type="checkbox"/> SEE ADDENDUM		
19. ITEM NO.	20. SCHEDULE OF SUPPLIES/SERVICES			21. QUANTITY	22. UNIT	23. UNIT PRICE
(Use Reverse and/or Attach Additional Sheets as Necessary)						
25. ACCOUNTING AND APPROPRIATION DATA					26. TOTAL AWARD AMOUNT (For Govt. Use Only)	
27a. SOLICITATION INCORPORATES BY REFERENCE FAR 52.212-1, 52.212-4. FAR 52.212-3 AND 52.212-5 ARE ATTACHED. ADDENDA					<input type="checkbox"/> ARE <input type="checkbox"/> ARE NOT ATTACHED	
27b. CONTRACT/PURCHASE ORDER INCORPORATES BY REFERENCE FAR 52.212-4. FAR 52.212-5 IS ATTACHED. ADDENDA					<input type="checkbox"/> ARE <input type="checkbox"/> ARE NOT ATTACHED	
28. CONTRACTOR IS REQUIRED TO SIGN THIS DOCUMENT AND RETURN COPIES TO ISSUING OFFICE. CONTRACTOR AGREES TO FURNISH AND DELIVER ALL ITEMS SET FORTH OR OTHERWISE IDENTIFIED ABOVE AND ON ANY ADDITIONAL SHEETS SUBJECT TO THE TERMS AND CONDITIONS SPECIFIED				29. AWARD OF CONTRACT: REF. _____ OFFER DATED _____. YOUR OFFER ON SOLICITATION (BLOCK 5), INCLUDING ANY ADDITIONS OR CHANGES WHICH ARE SET FORTH HEREIN, IS ACCEPTED AS TO ITEMS:		
30a. SIGNATURE OF OFFEROR/CONTRACTOR				31a. UNITED STATES OF AMERICA (SIGNATURE OF CONTRACTING OFFICER)		
30b. NAME AND TITLE OF SIGNER (Type or print)		30c. DATE SIGNED		31b. NAME OF CONTRACTING OFFICER (Type or print)		31c. DATE SIGNED

AUTHORIZED FOR LOCAL REPRODUCTION  
 PREVIOUS EDITION IS NOT USABLE

**STANDARD FORM 1449** (REV. 3/2005)  
 Prescribed by GSA - FAR (48 CFR) 53.212

19. ITEM NO.	20. SCHEDULE OF SUPPLIES/SERVICES	21. QUANTITY	22. UNIT	23. UNIT PRICE	24. AMOUNT
32a. QUANTITY IN COLUMN 21 HAS BEEN <input type="checkbox"/> RECEIVED <input type="checkbox"/> INSPECTED <input type="checkbox"/> ACCEPTED, AND CONFORMS TO THE CONTRACT, EXCEPT AS NOTED: _____					
32b. SIGNATURE OF AUTHORIZED GOVERNMENT REPRESENTATIVE		32c. DATE	32d. PRINTED NAME AND TITLE OF AUTHORIZED GOVERNMENT REPRESENTATIVE		
32e. MAILING ADDRESS OF AUTHORIZED GOVERNMENT REPRESENTATIVE			32f. TELEPHONE NUMBER OF AUTHORIZED GOVERNMENT REPRESENTATIVE		
			32g. E-MAIL OF AUTHORIZED GOVERNMENT REPRESENTATIVE		
33. SHIP NUMBER	34. VOUCHER NUMBER	35. AMOUNT VERIFIED CORRECT FOR	36. PAYMENT		37. CHECK NUMBER
<input type="checkbox"/> PARTIAL <input type="checkbox"/> FINAL			<input type="checkbox"/> COMPLETE <input type="checkbox"/> PARTIAL <input type="checkbox"/> FINAL		
38. S/R ACCOUNT NO.	39. S/R VOUCHER NUMBER	40. PAID BY			
41a. I CERTIFY THIS ACCOUNT IS CORRECT AND PROPER FOR PAYMENT		42a. RECEIVED BY ( <i>Print</i> )			
41b. SIGNATURE AND TITLE OF CERTIFYING OFFICER		41c. DATE		42b. RECEIVED AT ( <i>Location</i> )	
				42c. DATE REC'D ( <i>YY/MM/DD</i> )	
				42d. TOTAL CONTAINERS	
<b>STANDARD FORM 1449 (REV. 3/2005) BACK</b>					

## **Appendix C. Steps for Valuing Inventory and OM&S**

---

This appendix contains guidance received on the steps that will assist in the baseline valuation process for inventory and OM&S.

## **Critical Steps for Inventory and Operating Materials & Supplies**

### **Baseline Valuation**

Verification of Physical Existence of Quantities. The following baseline valuation steps are primarily predicated on an iterative and information gathering process utilizing data in stock control, logistics, and inventory accounting systems which support and maintain reportable on-hand quantities for Inventories and Operating Materials and Supplies. However, in order for baseline valuations to have audit creditability, quantities used in the baseline valuation process must be verifiable to actual physical existence. The actual physical existence and verification of quantities should be performed at the beginning stage of the process, e.g., in conjunction with or after Steps 1 or 2. Early verification is necessary in order to preclude the potential for expending significant resources going to the end of the process utilizing unsupported quantities.

Step 1 - Review all managed or held Inventory and Operating Materials & Supplies (I&OM&S) items with National Stock Numbers, Manufacture's Part Numbers or other identifying item numbers in supporting I&OM&S stock/logistics systems. Determine items which have quantities reported as "on-hand" by the supporting system(s). Verify the accuracy and integrity of supporting systems that compute and maintain quantities. Establish a workable database for all items being baselined which had reported on-hand quantities.

Step 2 - Determine and include in the database all available acquisition histories related to items being baselined which had reported on-hand quantities. (Acquisition history includes information and data elements in supporting logistics or management systems indicating procurement - such as last representative buy quantity and price.)

Step 3 - Determine initial baseline historical values for those items with reported on-hand quantities using quantities for the most recent acquisition histories. Use the next most recent acquisition data (and etc.) until all reported on-hand quantities being baselined have been identified to an initial historical baseline value.

Step 4 - Validate reported on-hand quantities with acquisition histories to supporting source documentation, e.g., hardcopy contracts, contract data repositories, contract data databases, or other supporting documentation such as delivery orders, purchase orders, and receipt documentation.

Step 5 - Validate reported on-hand quantities with acquisition histories - but with no supporting contract information - to corroborative information such as commercial sources (e.g., the IHS Corporation Federal Logistics Information System HAYSTACK web-based database or other commercial pricing sources) or other similar and multiple acquisition histories (e.g., with similar dollar values).

## Attachment 1

Step 6 - For reported on-hand quantities with acquisition histories - but with no supporting contract information and no acceptable corroborative information - determine the availability of corroborative information for like items (for example, items classified as interchangeable items and substitutable items).

Step 7 - For reported on-hand quantities with no acquisition histories and no supporting contract information or corroborative information, determine alternative corroborative correlations, e.g., standard price (less surcharges) comparisons to commercial price catalogs.

Step 8 - For reported on-hand quantities with no acquisition histories and no supporting contract information or corroborative or alternative corroborative information, determine values of like items as defined by item managers. Use values for like items when like items have supporting documentation or corroborative information.

Step 9 - For reported on-hand quantities with no acquisition histories and no acceptable supporting contract or corroborative information, determine actual repair costs incurred for on-hand quantities with repair histories as alternative corroborative information or as an alternative item valuation. Validate repair costs to supporting documentation for repair costs, e.g., depot maintenance work orders and commercial repair contracts.

Step 10 - For reported on-hand reparable item quantities found in Step 9 above (with no acquisition histories and no procurement or corroborative information) that cannot be corroborated to repair cost, use systems repair data as the alternative baseline valuation.

Step 11 - Determine the materiality to the financial statements of any reported on-hand quantities which have not been assigned a supportable or corroborative baseline value subsequent to completion of Steps 1 through 10. (In general, if materiality relative to the total financial statement values is not significant, use the current catalog price for Step 11 items minus surcharges.)

Step 12 - Assess the demand history or the probability of items being sold or issued for use. Items which have no demand history, support obsolete and retired weapons systems, or which have an otherwise remote chance of sale or issue should be baselined to a net realizable value unless item managers can provide reasonable evidence to the contrary.

Step 13 - For items which represent material values - and which will potentially have continued demand - determine alternative valuations for any items not valued subsequent to Steps 1 through 12. Alternative valuations include information based on expertise of item managers, Program Management Offices, budget programs for items in question, cost or engineering estimates, price deflators, or alternative data bases. All alternative baseline valuations should be documented for audit purposes.

This page intentionally left blank.



## **Appendix D. Memorandum of Approved Valuation Method**

---

This appendix includes a copy of the OUSD(C) Memorandum and Action Memos, of July 6, 2001, that provides guidance on the approved valuation method for Inventory Held for Sale and OM&S.



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE  
1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100

*A.B. Anderson*

JUL 6 2001

MEMORANDUM FOR DEPUTY UNDER SECRETARY OF DEFENSE FOR LOGISTICS  
AND MATERIEL READINESS  
ASSISTANT SECRETARY OF DEFENSE (HEALTH AFFAIRS)  
DIRECTORS OF THE DEFENSE AGENCIES  
DIRECTORS OF THE DOD FIELD ACTIVITIES  
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL  
MANAGEMENT AND COMPTROLLER)  
SENIOR CIVILIAN OFFICIAL, OFFICE OF THE ASSISTANT  
SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT  
AND COMPTROLLER)  
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL  
MANAGEMENT AND COMPTROLLER)  
ASSISTANT SECRETARY OF THE ARMY FOR ACQUISITION,  
LOGISTICS AND TECHNOLOGY  
ASSISTANT SECRETARY OF THE NAVY (RESEARCH,  
DEVELOPMENT AND ACQUISITION)  
ASSISTANT SECRETARY OF THE AIR FORCE (ACQUISITION)

SUBJECT: Approved Valuation Method for Inventory Held for Sale and Operating Materials  
and Supplies

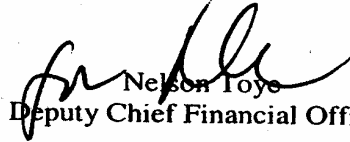
The Department of Defense legacy systems were not designed to maintain historical cost valuation for inventory held for sale and operating materials and supplies in compliance with generally accepted accounting principles. Despite significant efforts to achieve an auditable financial presentation using available data, the current approach, latest acquisition cost adjusted for holding gains and losses, does not provide meaningful financial accounting information and has failed to gain audit acceptance.

The use of the moving average cost inventory valuation method should provide the best value to the Department, based on the Components' analyses of the Department's material management policies and processes. The Department of Defense Financial Management Regulation, DoD 7000.14-R, Volumes 4 and 11B, will be modified to establish moving average cost as the Department's standard valuation method for the financial statement presentation of inventory and operating materials and supplies. The Military Departments and the Defense Agencies may request exceptions to this valuation method for their financial statements from the Director, Accounting Policy. Each Military Department and Defense Agency responsible for material amounts of inventory or operating materials and supplies shall implement the moving average cost valuation method as systems are renovated or replaced. Alternative valuation methods may continue to be used for other functional requirements (e.g., logistics, procurement,

*AP-R-0227*  
*304.02.21.1.7*

and budget) as deemed necessary by the cognizant functional managers. Such methods include the use of the latest acquisition cost and standard price.

This policy is effective upon receipt of this memorandum. The point of contact for this matter is Gretchen Anderson. She may be reached by e-mail: [andersog@osd.pentagon.mil](mailto:andersog@osd.pentagon.mil) or by telephone at (703) 697-4691 (DSN 227-4691).



Nelson Toyo  
Deputy Chief Financial Officer

This page intentionally left blank.

## **Appendix E. DoDFMR, Volume 6B, Chapter 14**

---

This appendix includes a copy of the DoDFMR, Volume 6B, Chapter 14.

**DoD Financial Management Regulation****Volume 6B, Chapter 14****★ October 2000****CHAPTER 14****DISCLOSURE CHECKLIST****1401 GENERAL**

This disclosure checklist was prepared to assist preparers of federal financial statements by providing a list of disclosures required by the Statements of Federal Financial Accounting Standards (SFFAS). It is not a comprehensive or an authoritative list of required disclosures. The standards and the other provisions of this volume provide that guidance. Furthermore, it does not address the portion of the standards that provide guidance for the recognition and measurement of information contained in the principal statements and related notes. The checklist begins by listing the SFFAS and their effective dates. It then presents each SFFAS in order, identifies the subtopic for which disclosure is required, cites the SFFAS paragraph number, refers to the section of this volume that addresses the disclosure requirement, and describes the category in which the information is to be disclosed. Use the checklist as applicable.

The following provides an explanation of the information included in the columns of the crosswalk (all balances are preclosing balances, except where noted):

- Column (1) SFFAS, represents the SFFAS that addresses the disclosure identified in column (5),
- Column (2) Subject Area, identifies the title of a subject area within one of the SFFASs,
- Column (3) SFFAS Paragraph Number., identifies the SFFASs paragraph number that addresses the disclosure contained in column (5),
- Column (4) Volume 6B Chapter, identifies the chapter in Volume 6B of this Regulation that addresses the disclosure identified in column (5),
- Column (5) Disclosure Requirement, identifies the specific disclosure requirements,
- Column (6) Financial Statements, an "X" or comment in this column indicates the disclosure is contained on one of the principal statements.
- Column (7) Footnote, an "X" or comment in this column indicates the disclosure is contained on one of the footnotes,
- Column (8) Required Supplementary Stewardship Information (RSSI), an "X" or comment in this column indicates the disclosure is contained on one of the RSSI section of the financial statements,
- Column (9) Required Supplementary Information (RSI) & Other Accompanying Information (OAI), an "X" or comment in this column indicates the disclosure is contained on one of the RSI sections or in the OAI section of the financial statements.

**DoD Financial Management Regulation****Volume 6B, Chapter 14****★ October 2000****★1402 DISCLOSURES REQUIRED BY SFFAS NO. 1**

SFFAS	Subject Area	SFFAS Para. No.	DoDFMR Volume 6B Chapter	(5) Required Disclosure	Fin. Stmt.	Foot-note	(8) RSSI	(9) RSI & OAI
1	Intragovernmental Assets and Liabilities	24	<a href="#">Chapter 4</a>	Report intragovernmental assets and liabilities separately from governmental assets and liabilities.	X		X	
1	Entity and Nonentity Assets	26	<a href="#">Chapter 4</a>	Report in the entity's financial statement both entity assets and nonentity assets under its custody or management.	X			
1	Fund Balance with Treasury	38	★ <a href="#">Chapter 10</a> , note 3	Disclose any restrictions on future use of unobligated balances.		X		
1	Intragovernmental Receivables	42	<a href="#">Chapter 4</a>	Report intragovernmental receivables (amounts due from federal entities) separately from receivables from nonfederal entities.	X		X	
1	Receivables	43	<a href="#">Chapter 4</a>	Distinguish between entity receivables and nonentity receivables.	X			
1	Receivables	52	★ <a href="#">Chapter 10</a> , note 5	Disclose the major categories of receivables by amount and type, the methodology used to estimate the allowance for uncollectible amounts, and the total allowance.		X		
1	Interest Receivable	55	★ <a href="#">Chapter 10</a> , note 5	Disclose accrued interest on uncollectible accounts receivable until it is officially waived by the entity or the related debt is written off.		X		
1	Interest Receivable	56	<a href="#">Chapter 4</a>	Account for and report interest receivable from federal entities separately from interest receivable from the public.	X			
1	Advances and Prepayments	61	<a href="#">Chapter 4</a> , subparagraph 040202.A.4.	Disclose in the notes advances and prepayments and the amount and nature of other major categories of "Other" assets. Material disclosures for this line should be provided in note 6. ★		X		

Table 14-1

**DoD Financial Management Regulation****Volume 6B, Chapter 14****★ October 2000**

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
SFFAS	Subject Area	SFFAS Para. No.	DoDFMR Volume 6B Chapter	Required Disclosure	Fin. Stmt.	Foot-note	RSSI	RSI & OAI
1	Investments	67	<a href="#">Chapter 4</a> , subparagraph 040202.A.2.	Investments in securities issued by the U.S. Treasury or other federal entities should be accounted for and reported separately from investments in securities issued by nonfederal entities.		X		
1	Investments in Treasury Securities	72	<a href="#">Chapter 10</a> , section 1004, note 4	Disclose the market value of investments in market-based and marketable Treasury securities.		X		
1	Accounts Payable	80	<a href="#">Chapter 4</a>	Disclose accounts payable not covered by budgetary resources.	X			
1	Current Liabilities	86	<a href="#">Chapter 4</a>	Disclose the amount of current liabilities not covered by budgetary resources.		X		

Table 14-1 (Continued)



**DoD Financial Management Regulation****Volume 6B, Chapter 14****★ October 2000**1403 DISCLOSURES REQUIRED BY SFFAS NO. 2

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
SFFAS	Subject Area	SFFAS Para. No.	DoDFMR Volume 6B Chapter	Required Disclosure	Fin. Stmt.	Foot-note	RSSI	RSI & OAI
2	Guaranteed Loans	23	<a href="#">Chapter 10</a> , note 6	Disclose the face value of guaranteed loans outstanding and the amount guaranteed.		X		
2	Loan Modification	56	★ <a href="#">Chapter 10</a> , section 1007, note 8	Disclose the nature of any modification of direct loans or loan guarantees, the discount rate used in calculating the modification expense, and the basis for recognizing a gain or loss related to the modification.		X		

Table 14- 2

**DoD Financial Management Regulation****Volume 6B, Chapter 14****★ October 2000****★1404 DISCLOSURES REQUIRED BY SFFAS NO. 3**

(1) SFFAS	(2) Subject Area	(3) SFFAS Para. No.	(4) DoDFMR Volume 6B Chapter	(5) Required Disclosure	(6) Fin. Stmt.	(7) Foot- note	(8) RSSI	(9) RSI & OAI
3	Inventory	27	★ <a href="#">Chapter 10</a> , note 9	Report the value of inventory held in reserve for future sale as a component of the inventory and related property line item on the Balance Sheet with separate disclosure in footnotes.	X	X		
3	Inventory	28	★ <a href="#">Chapter 10</a> , note 9	Disclose the changes in criteria considered by management in identifying inventory held in reserve for future sale.		X		
3	Inventory	29	★ <a href="#">Chapter 10</a> , note 9	Report the category “excess, obsolete and unserviceable inventory” as a component of the inventory and related property line item on the Balance Sheet with separate disclosure in footnotes.	X	X		
3	Inventory	31	★ <a href="#">Chapter 10</a> , note 9	Disclose the criteria for identifying excess, obsolete and unserviceable inventory.		X		
3	Inventory	35	★ <a href="#">Chapter 10</a> , note 9	Disclose the following: (1) General composition of inventory. (2) Basis for determining inventory values including the valuation method and any cost flow assumptions. (3) Changes from prior year’s accounting methods, if any. (4) Balances for each of the following categories of inventory: (a) inventory held for current sale, (b) inventory held in reserve for future sale, (c) excess, obsolete and unserviceable inventory.				

Table 14-3

**DoD Financial Management Regulation****Volume 6B, Chapter 14****★ October 2000**

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
SFFAS	Subject Area	SFFAS Para. No.	DoDFMR Volume 6B Chapter	Required Disclosure	Fin. Stmt.	Foot-note	RSSI	RSI & OAI
3	Inventory (Continued)	35	★ <a href="#">Chapter 10</a> , note 9	(d) inventory held for repair unless otherwise presented on the financial statements (5) Restrictions on the sale of material. (6) The decision criteria for identifying the category to which inventory is assigned. (7) Changes in the criteria for identifying the category to which inventory is assigned.				
3	Operating Materials and Supplies (OMS)	45	★ <a href="#">Chapter 4</a> and <a href="#">Chapter 10</a> note 9	The value of OMS held in reserve for future use that is included on the OMS line item on the face of the financial statement will be separately disclosed in note 9.	X	X		
3	Operating Materials and Supplies	46	★ <a href="#">Chapter 10</a> , note 9	Disclose the criteria for identifying operating materials and supplies held in reserve for future use.		X		
3	Operating Materials and Supplies	47	★ <a href="#">Chapter 10</a> , note 9	Report the category “excess, obsolete and unserviceable operating materials and supplies” as a component of the inventory and related property line item on the Balance Sheet with separate disclosure in footnotes. Criteria for identifying “excess, obsolete and unserviceable operating materials and supplies” should also be disclosed.	X or	X		
3	Operating Materials and Supplies	50	★ <a href="#">Chapter 10</a> , note 9	Disclose the following: (1) General composition of operating materials and supplies. (2) Basis for determining operating materials and supplies values including valuation method and any cost flow assumptions. (3) Changes from prior year’s accounting methods, if any. (4) Balances for each of the categories of operating materials and supplies described above.		X		

Table 14-3 (Continued)

**DoD Financial Management Regulation****Volume 6B, Chapter 14****★ October 2000**

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
SFFAS	Subject Area	SFFAS Para. No.	DoDFMR Volume 6B Chapter	Required Disclosure	Fin. Stmt.	Foot-note	RSSI	RSI & OAI
3	Operating Materials and Supplies (Continued)	50	★ <a href="#">Chapter 10</a> , note 9	(5) Restrictions on the use of material. (6) Decision criteria for identifying the category to which operating materials and supplies are assigned. (7) Changes in the criteria for identifying the category to which operating materials and supplies are assigned.				
3	Stockpile Materials	55	★ <a href="#">Chapter 10</a> , note 9	Disclose those materials authorized to be sold as “stockpile materials held for sale” as a component of the inventory and related property line item on the Balance Sheet with separate disclosure in footnotes.	X	X		
3	Stockpile Materials	55	★ <a href="#">Chapter 10</a> , note 9	Disclose any difference between the carrying amount of the stockpile materials held for sale and their estimated selling price.		X		
3	Stockpile Materials	56	★ <a href="#">Chapter 10</a> , note 9	Disclose the following: (1) General composition of stockpile materials. (2) Basis for valuing stockpile materials, including valuation method and any cost flow assumption. (3) Changes from prior year’s accounting methods, if any. (4) Restrictions on the use of materials. (5) Balances of stockpile materials in each category (stockpile materials and stockpile materials held for sale). (6) Decision criteria for categorizing stockpile materials as held for sale. (7) Changes in criteria for categorizing stockpile materials as held for sale.		X		

Table 14-3 (Continued)

DoD Financial Management Regulation				Volume 6B, Chapter 14 ★ October 2000				
(1) SFFAS	(2) Subject Area	(3) SFFAS Para. No.	(4) DoDFMR Volume 6B Chapter	(5) Required Disclosure	(6) Fin. Stmt.	(7) Foot- note	(8) RSSI	(9) RSI & OAI
3	Seized Property	62	★ <a href="#">Chapter 10</a> , note 9	Disclose seized property other than monetary instruments as a component of the inventory and related property line item on the Balance Sheet with separate disclosure in footnotes.	X	X		
3	Seized Property	66	★ <a href="#">Chapter 10</a> , note 9	Disclose the following: (1) Explanation of what constitutes a seizure and a general description of the composition of seized property. (2) Method(s) of valuing seizures. (3) Changes from prior year's accounting methods, if any. (4) Analysis of change in seized property, including the dollar value and number of seized properties that are: (a) on hand at the beginning of the year, (b) seized during the year, (c) disposed of during the year, and (d) on hand at the end of the year as well as known liens or other claims against the property. This information should be presented by type of seized property and method of disposition, where material.		X		
3	Forfeited Property	78	★ <a href="#">Chapter 10</a> , note 9	Disclose the following for forfeited property, including forfeited property that cannot be sold due to legal restrictions: (1) Composition of forfeited property. (2) Method(s) of valuing forfeited property. (3) Restrictions on the use or disposition of forfeited property. (4) Changes from prior year's accounting methods, if any.		X		

Table 14-3 (Continued)

14-8

**DoD Financial Management Regulation****Volume 6B, Chapter 14****★ October 2000**

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
SFFAS	Subject Area	SFFAS Para. No.	DoDFMR Volume 6B Chapter	Required Disclosure	Fin. Stmt.	Foot-note	RSSI	RSI & OAI
3	Forfeited Property (Continued)	78	★ <a href="#">Chapter 10</a> , note 9	(5) Analysis of change in forfeited property providing the dollar value and number of forfeitures that: (a) are on hand at the beginning of the year, (b) are made during the year, (c) are disposed of during the year and the method of disposition, and (d) are on hand at the end of the year. This information should be presented by type of property forfeited, where material. (6) If available, an estimate of the value of property or funds to be distributed to federal, state and local agencies in future reporting periods.				
3	Foreclosed Property	91	★ <a href="#">Chapter 10</a> , note 9	Disclose the following: (1) Valuation basis used for foreclosed property. (2) Changes from prior year's accounting methods, if any. (3) Restrictions on the use/disposal of the property. (4) Balances in the categories described above. (5) Number of properties held and average holding period by type or category. (6) Number of properties for which foreclosure proceedings are in process at the end of the period.		X		
3	Commodities	99	★ <a href="#">Chapter 10</a> , note 9	Recognize the commodities as assets and report them on the face of the Balance Sheet upon producers surrender of title to satisfy a nonrecourse loan or upon purchase by the agency.	X			

Table 14-3 (Continued)

**DoD Financial Management Regulation****Volume 6B, Chapter 14****★ October 2000**

(1) SFFAS	(2) Subject Area	(3) SFFAS Para. No.	(4) DoDFMR Volume 6B Chapter	(5) Required Disclosure	(6) Fin. Stmt.	(7) Foot- note	(8) RSSI	(9) RSI & OAI
3	Commodities	109	★ <a href="#">Chapter 10</a> , note 9	General disclosure requirements: (1) Basis for valuing commodities, including the valuation method and any cost flow assumptions. (2) Changes from prior year's accounting methods, if any. (3) Restrictions on the use, disposal, or sale of commodities.				
3	Commodities (Continued)	109	★ <a href="#">Chapter 10</a> , note 9	(4) An analysis of change in the dollar value and volume of commodities, including those: (a) on hand at the beginning of the year, (b) acquired during the year, (c) disposed of during the year by method of disposition, (d) on hand at the end of the year, (e) on hand at year's end and estimated to be donated or transferred during the coming period, and (f) the amount and value of commodities that may be received as a result of surrender of collateral related to nonrecourse loans outstanding. The analysis should also show the dollar value and volume of purchase agreement commitments.		X		

Table 14-3 (Continued)

**DoD Financial Management Regulation****Volume 6B, Chapter 14****★ October 2000****★1405 DISCLOSURES REQUIRED BY SFFAS NO. 4**

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
SFFAS	Subject Area	SFFAS Para. No.	DoDFMR Volume 6B Chapter	Required Disclosure	Fin. Stmt.	Foot-note	RSSI	RSI & OAI
4	Full Cost	89	<a href="#">Chapter 5</a>	Report the full costs of outputs in general purpose financial reports.	X			
4	Costs Not Assigned Programs	92 and 104	<a href="#">Chapter 5</a>	Report on the financial statements as costs not assigned to programs, high level management and administrative support costs that cannot be assigned to segments and their outputs. A reporting entity may incur costs that are linked to events other than the production of goods and services. These nonproduction costs should not be assigned to outputs but should be assigned to programs, if possible.	X			

Table 14-4



**DoD Financial Management Regulation****Volume 6B, Chapter 14****★ October 2000****★1406 DISCLOSURES REQUIRED BY SFFAS NO. 5**

(1) SFFAS	(2) Subject Area	(3) SFFAS Para. No.	(4) DoDFMR Volume 6B Chapter	(5) Required Disclosure	(6) Fin. Stmt.	(7) Foot- note	(8) RSSI	(9) RSI & OAI
5	Contingent Liability	39	★ <a href="#">Chapter 10</a> , note 16	Report as an estimated contingent liability a specific amount or a range of amounts. If some amount within the range is a better estimate than any other amount within the range, that amount is recognized. If no amount within the range is a better estimate than any other amount, the minimum amount in the range is recognized and the range and a description of the nature of the contingency should be disclosed.	X	X		
5	Contingent Liability	40	★ <a href="#">Chapter 10</a> , note 16	Disclose a contingent liability if any of the conditions for liability recognition are not met and there is at least a reasonable possibility that a loss or an additional loss may have been incurred.		X		
5	Contingent Liability	41	★ <a href="#">Chapter 10</a> , note 16	Disclose the nature of the contingency and an estimate of the possible liability, an estimate of the range of the possible liability, or a statement that such an estimate cannot be made.		X		
5	Capital Leases	43-46	★ <a href="#">Chapter 10</a> , notes 15.B.	For leases that meet the criteria for capital leases, the lessee shall report as a liability the present value of the rental and other minimum payments during the lease term, excluding that portion of the payments representing executory costs to be paid by lessor.		X		
5	Pensions	65 and 67	★ <a href="#">Chapter 10</a> , note 17	Use the best available actuarial estimates to calculate the pension expense and liability for financial reports prepared for the three primary federal pension plans. The administrative entity should disclose the assumptions used. Smaller federal administrative entities, if they use assumptions that differ from all of the primary plans, they should explain in a footnote how and why the assumptions differ from one of those plans.		X		

Table 14-5

14-12

<b>DoD Financial Management Regulation</b>				<b>Volume 6B, Chapter 14</b>				
				<b>★ October 2000</b>				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
SFFAS	Subject Area	SFFAS Para. No.	DoDFMR Volume 6B Chapter	Required Disclosure	Fin. Stmt.	Foot-note	RSSI	RSI & OAI
5	Pensions	68	<a href="#">Chapter 4</a> and <a href="#">Chapter 10</a> , section 1015, note 14	Report assets separately from the pension liability. Do not report only a net liability. For investments in market-based and marketable securities, the market value of the investment should be disclosed.	X	X		
5	Pensions	72	★ <a href="#">Chapter 10</a> , note 17	The administrative entity shall disclose the individual components for the net pension expense (service cost, period interest on the benefit liability, prior or past service cost, and period actuarial gains or losses).		X		
5	Other Retirement Benefits (ORB)	83	★ <a href="#">Chapter 10</a> , note 17	Report the following for amounts calculated for financial reports prepared for ORB plans: (1) General actuarial and economic assumptions that are consistent with those used for pensions, and (2) A health care cost trend assumption that is consistent with Medicare projections or other authoritative sources appropriate for the population covered by the plan. The administrative entity should disclose the assumptions used.		X		
5	Other Retirement Benefits	85	★ <a href="#">Chapter 4</a> and <a href="#">Chapter 10</a> , note 17	Report assets separately from the ORB liability rather than merely reporting the net liability. For investments in market-based and marketable securities, the market value of the investment should be disclosed.	X	X		

Table 14-5 (Continued)

14-13

**DoD Financial Management Regulation****Volume 6B, Chapter 14****★ October 2000**

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
SFFAS	Subject Area	SFFAS Para. No.	DoDFMR Volume 6B Chapter	Required Disclosure	Fin. Stmt.	Foot-note	RSSI	RSI & OAI
5	Other Retirement Benefits	88	★ <a href="#">Chapter 10</a> , note 17	The administrative entity shall disclose the individual components for the net ORB expense (service cost, period interest on the benefit liability, prior or past service cost, gains/losses due to a change in the medical inflation rate assumption, and other period actuarial gains or losses.		X		
5	Insurance and Guarantees	117	<a href="#">Chapter 4</a>	All federal reporting entities with whole life insurance programs should follow private sector standards when reporting the liability for future policy benefits.	X	X		
5	Insurance and Guarantees	121	<a href="#">Chapter 10</a>	Disclose separately in a footnote all components of the liability for future policy benefits of whole life insurance. Include a description of each amount and an explanation of its projected use and any other potential uses.		X		
5	Insurance and Guarantees	106	<a href="#">Chapter 11</a>	When financial information pursuant to Financial Accounting Standards Advisory Board (FASAB) standards on federal insurance and guarantee programs conducted by government corporations is incorporated in general purpose financial reports of a larger federal reporting entity, the entity should report as RSSI what amounts and periodic change in those amounts should be reported under the "risk assumed" approach referred to in this section (see SFFAS No. 5, par. No. 105).			X	

Table 14-5 (Continued)

**DoD Financial Management Regulation****Volume 6B, Chapter 14****★ October 2000****★1407 DISCLOSURES REQUIRED BY SFFAS NO. 6**

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
SFFAS	Subject Area	SFFAS Para. No.	DoD FMR Volume 6B Chapter	Required Disclosure	Fin. Stmt.	Footnote	RSSI	RSI & OAI
6	General Plant, Property and Equipment (PP&E) Implementation Guidance	44	★ <a href="#">Chapter 10</a> , note 10	Disclose in the period that these standards are implemented, the adjustments, by major class of PP&E, made to General PP&E and accumulated depreciation/amortization.		X		
6	General PP&E Disclosure Requirements	45	★ <a href="#">Chapter 10</a> , note 9	Disclose the following information for General PP&E: (1) The cost, associated accumulated depreciation, and book value by major class. (2) The estimated useful lives for each major class. (3) The method(s) of depreciation for each major class. (4) Capitalization threshold(s), including any changes in threshold(s) during the period. (5) Restrictions on the use or convertibility of General PP&E.		X		
6	National Defense PP&E	53	<a href="#">Chapter 5</a>	Recognize as a cost on the statement of net cost the periodic cost of acquiring, constructing, improving, reconstructing, or renovating National Defense PP&E. The cost shall be disclosed as “cost of National Defense PP&E” in note 19.	X	X		

Table 14-6

**DoD Financial Management Regulation****Volume 6B, Chapter 14****★ October 2000**

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
SFFAS	Subject Area	SFFAS Para. No.	DoD FMR Volume 6B Chapter	Required Disclosure	Fin. Stmt.	Foot-note	RSSI	RSI & OAI
6	Heritage Assets	61	★ <a href="#">Chapter 5</a> and <a href="#">Chapter 10</a> , note 19	Recognize as a cost in the period incurred the cost of improving, reconstructing, or renovating heritage assets. Also, in the event that heritage assets are acquired or constructed, the cost should be recognized as a cost of the period incurred. These costs should be disclosed as “Cost of Heritage Assets” in the footnotes. The cost of heritage assets transferred from other federal entities should be the book value of the asset recorded on the transferring entity’s books. If the receiving entity does not know the book value, the fair value should be disclosed in notes to the statement of net cost. If fair value is not estimable, information related to the type and quantity of assets transferred should be disclosed. No amounts of heritage assets acquired through donation or devise should be recognized in the cost of heritage assets.	X	X		
6	Heritage Assets (Continued)	61	★ <a href="#">Chapter 5</a> and <a href="#">Chapter 10</a> , note 19	The fair value of the asset, if known and material, should be disclosed in notes to the statement of net cost in the year received. If fair value is not known or reasonably estimable, information related to the type and quantity of assets should be disclosed.	X	X		
6	Stewardship Land	69	<a href="#">Chapter 5</a>	Recognize as a cost in the period incurred the acquisition cost of stewardship land. The cost shall be disclosed as “cost of stewardship land” in the footnotes.	X	X		

Table 14-6 (Continued)

**DoD Financial Management Regulation****Volume 6B, Chapter 14****★ October 2000**

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
SFFAS	Subject Area	SFFAS Para. No.	DoD FMR Volume 6B Chapter	Required Disclosure	Fin. Stmt.	Foot-note	RSSI	RSI & OAI
6	Stewardship Land	71	★ <a href="#">Chapter 10</a> , note 19	No amounts for stewardship land acquired through donation or devise should be recognized as a cost on the statement of net cost. Its fair value, if known and material, should be disclosed in notes to the statement of net cost. If fair value is not estimable, information related to the type and quantity of assets received should be disclosed in the year received.		X		
6	Stewardship Land	72	★ <a href="#">Chapter 10</a> , note 19	Stewardship land may be transferred between federal entities. Transfers of stewardship land should be disclosed in the notes if material.		X		
★ 6 See SFFAS No. 14	Deferred Maintenance	79 See SFFAS No. 14	<a href="#">Chapter 12</a> , section 1202	Present on the Statement of Net Cost a line item for “deferred maintenance” with a reference to required supplemental information in lieu of a dollar amount. No amounts should be recognized for deferred maintenance.	X			X
★ 6 See SFFAS No. 14	Deferred Maintenance –Report Requirements	80-84 See SFFAS No. 14	<a href="#">Chapter 12</a> , section 1202	Present the following information for all PP&E as required supplementary information: (1) Identification of each major class of asset for which maintenance has been deferred. (2) Method of measuring deferred maintenance for each major class of PP&E. (Amounts reported may be measured using: (a) condition assessment surveys, or (b) life-cycle cost forecasts.)		X		

Table 14-6 (Continued)

**DoD Financial Management Regulation****Volume 6B, Chapter 14****★ October 2000**

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
SFFAS	Subject Area	SFFAS Para. No.	DoD FMR Volume 6B Chapter	Required Disclosure	Fin. Stmt.	Foot-note	RSSI	RSI & OAI
6	Cleanup Cost for General PP&E	105	★ <a href="#">Chapter 10</a> note 20	The offsetting charge for any liability recognized upon implementation should be made to Net Position. The amount of the adjustment should be shown as a “prior period adjustment” in any Statement of Changes in Net Position that may be required. No amounts should be recognized as expense in the period of implementation. The amounts involved should be disclosed and, to the extent possible, the amount associated with current and prior periods should be noted.		X		
6	Cleanup Disclosure Requirements	107-111	★ <a href="#">Chapter 10</a> , note 14	Disclose the following: (1) Sources of cleanup requirements. (2) Method for assigning estimated total cleanup costs to current operating periods. (3) For cleanup costs associated with general PP&E, the unrecognized portion of estimated total cleanup costs. (4) Material changes in total estimated cleanup costs due to changes in laws, technology, or plans, and the portion of the change in estimate that relates to prior period operations. (5) The nature of estimates and the disclosure of information regarding possible changes due to inflation, deflation, technology, or applicable laws and regulations.		X		

Table 14-6 (Continued)

**DoD Financial Management Regulation****Volume 6B, Chapter 14****★ October 2000****★1408 DISCLOSURES REQUIRED BY SFFAS NO. 7**

(1) SFFAS	(2) Subject Area	(3) SFFAS Para. No.	(4) DoD FMR Volume 6B Chapter	(5) Required Disclosure	(6) Fin. Stmt.	(7) Foot- note	(8) RSSI	(9) RSI & OAI
7	Exchange Revenue	46 & 47	★ <a href="#">Chapter 10</a> , note 19	Each reporting entity that provides goods or services to the public or another government entity should disclose the following: (1) Differences in pricing policy from the full cost or market pricing guidance in the Office of Management and Budget Circular A-25, "User Charges," for exchange transactions with the public. (2) Exchange transactions with the public in which prices are set by law or executive order and are not based on full cost or on market price. (3) The nature of intragovernmental exchange transactions in which the entity provides goods or services at a price less than the full cost or does not charge a price at all, with explanations of the amount and reason for disparities between the billing and the full cost. (4) The full amount of the expected loss when specific goods are made to order under a contract, or specific services are produced to order under a contract, and a loss on the contract is probable and measurable. When disclosing (1) and (2), cautionary language should be added to the effect that higher prices based on full cost or market price might reduce the quality of goods or services demanded and, therefore, the difference between revenue received and such higher prices does not necessarily provide an indication of revenue foregone.		X		

Table 14-7



**DoD Financial Management Regulation****Volume 6B, Chapter 14****★ October 2000**

(1) SFFAS	(2) Subject Area	(3) SFFAS Para. No.	(4) DoD FMR Volume 6B Chapter	(5) Required Disclosure	(6) Fin. Stmt.	(7) Foot- note	(8) RSSI	(9) RSI & OAI
7	Exchange Revenue (Continued)	46 & 47	★ <a href="#">Chapter 10</a> , note 19	If a reasonable estimate is practicable to make, the entity should provide as other accompanying information the amount of revenue foregone and should explain whether, and to what extent, the quantity demanded was assumed to change as a result of a change in price.				
7	Non-Exchange Revenue	64 to 73	<a href="#">Chapter 10</a>	<p>A summary of required disclosures follow:</p> <p>(1) Basis of accounting.</p> <p>(2) Entities that collect taxes should disclose:</p> <p>(a) accounts receivable,</p> <p>(b) material revenue-related transactions,</p> <p>(c) cumulative cash collections and refunds by tax year and type of tax.</p> <p>(3) If trust fund revenues are not recorded in accordance with applicable law, both the collecting and recipient entities should disclose the reasons.</p> <p>Entities that collect taxes and duties should provide the following supplementary information relating to their potential revenue and custodial responsibilities:</p> <p>(1) The estimated realizable value, as of the end of the reporting period, of compliance assessments and, if reasonably estimable, preassessment work in process.</p> <p>(2) If reasonably estimable, other claims for refunds that are not yet accrued but are likely to be paid when administrative actions are completed (unasserted claims for refunds should be provided separately).</p>		X		X

Table 14-7 (Continued)

**DoD Financial Management Regulation****Volume 6B, Chapter 14****★ October 2000**

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
SFFAS	Subject Area	SFFAS Para. No.	DoD FMR Volume 6B Chapter	Required Disclosure	Fin. Stmt.	Foot-note	RSSI	RSI & OAI
7	Non-Exchange Revenue (Continued)	64 to 73	<a href="#">Chapter 10</a>	<p>(3) The amount of assessments that the entity still has statutory authority to collect at the end of the period but that have been written off and thus excluded from accounts receivable.</p> <p>(4) If reasonably estimable, the amounts by which trust funds may be over--or under--funded in comparison with the requirements of law.</p> <p>Recipient entities that are trust funds should provide the same information as required for collecting entities in (4), above.</p> <p>Other accompanying information:</p> <p>(1) A perspective on the income tax burden.</p> <p>(2) Available information on the size of the tax gap.</p> <p>(3) Tax expenditures related to entity programs.</p> <p>(4) Directed flows of resources related to entity programs.</p>		X		X
7	Budgetary Information	78	<a href="#">Chapter 7</a>	The reporting entity should provide information on budgetary resources for each of its major budget accounts as supplementary information. Small budget accounts may be aggregated.				X

Table 14-7 (Continued)

**DoD Financial Management Regulation****Volume 6B, Chapter 14****★ October 2000**

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
SFFAS	Subject Area	SFFAS Para. No.	DoD FMR Volume 6B Chapter	Required Disclosure	Fin. Stmt.	Foot-note	RSSI	RSI & OAI
7	Budgetary Information	79	★ <a href="#">Chapter 10</a> , note 21	<p>Disclose the following information about the status of budgetary resources:</p> <p>(1) The net amount of budgetary resources obligated for undelivered orders at the end of the period.</p> <p>(2) Available borrowing and contract authority at the end of the period (September 30).</p> <p>(3) Repayment requirements, financing sources for repayment, and other terms of borrowing authority used.</p> <p>(4) Material adjustments during the reporting period to budgetary resources available at the beginning of the year and an explanation thereof.</p> <p>(5) Existence, purpose, and availability of permanent indefinite appropriations.</p> <p>(6) Information about legal arrangements affecting the use of unobligated balances of budget authority.</p> <p>(7) Explanations of any material differences between the information required by paragraph 77 and the amounts described as “actual” in the <u>Budget of the United States Government</u>.</p> <p>(8) The amount, and an explanation that includes identification of balance sheet components, when recognized unfunded liabilities do not equal the total financing sources yet to be provided.</p> <p>(9) The amount of any capital infusion received during the reporting period.</p>		X		

Table 14-7 (Continued)

**DoD Financial Management Regulation****Volume 6B, Chapter 14****★ October 2000**

(1) SFFAS	(2) Subject Area	(3) SFFAS Para. No.	(4) DoD FMR Volume 6B Chapter	(5) Required Disclosure	(6) Fin. Stmt.	(7) Foot- note	(8) RSSI	(9) RSI & OAI
7	Dedicated Collections	84	★ <a href="#">Chapter 10</a> , note 24	Provide separate financial information about dedicated collections if they are material either to the reporting entity or to the beneficiaries or contributors. The separate information may be reported on the face of the entity's general purpose financial statements, or the information may be disclosed in the notes to the financial statements.		X		
7	Dedicated Collections	85	★ <a href="#">Chapter 10</a> , note 24	Report the following information for individual funds that account for dedicated collections: (1) A description of each fund's purpose, how the administrative entity accounts for and reports the fund, and its authority to use those collections. (2) The sources of revenue or other financing for the period and an explanation of the extent to which they are inflows of resources to the government or the result of intragovernmental flows. (3) Condensed information about assets and liabilities showing investments in Treasury securities, other assets, liabilities due and payable to beneficiaries, other liabilities, and fund balance. (4) Condensed information on net cost and changes to fund balance showing revenues by type, program expenses, other expenses, other financing sources, and other changes in fund balance. (5) Any revenues, other financing sources, or cost attributable to the fund under accounting standards, but not legally allowable as credits or charges to the fund.		X		

Table 14-7 (Continued)

**DoD Financial Management Regulation****Volume 6B, Chapter 14****★ October 2000**

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
SFFAS	Subject Area	SFFAS Para. No.	DoD FMR Volume 6B Chapter	Required Disclosure	Fin. Stmt.	Foot-note	RSSI	RSI & OAI
7	Dedicated Collections	86	★ <a href="#">Chapter 10</a> , note 24	The law may require the accounting for a fund to be done in a particular way. The disclosures called for by paragraph 85 of SFFAS No. 7 are required if the fund's recognition requirements, as determined by law, are contrary to applicable accounting standards with respect to certain revenue, other financing sources, or costs.		X		
7	Dedicated Collections	87	★ <a href="#">Chapter 10</a> , note 24	Most dedicated collections are included in the financial statements of the entity carrying out the program and responsible for administration of the fund. However, this may not be the case where collections are outside the budget or are not otherwise included in the reporting entity under the concepts of Entity and Display. In either case, the information (revenues, other financing sources, assets, liabilities, and costs of the fund) is required to be disclosed.		X		

Table 14-7 (Continued)

**DoD Financial Management Regulation****Volume 6B, Chapter 14****★ October 2000****1409 DISCLOSURES REQUIRED BY SFFAS NO. 8**

(1) SFFAS	(2) Subject Area	(3) SFFAS Para. No.	(4) DoD FMR Volume 6B Chapter	(5) Required Disclosure	(6) Fin. Stmt.	(7) Foot- note	(8) RSSI	(9) RSI & OAI
8	Heritage Assets	50	<a href="#">Chapter 11</a>	Report the following for Heritage Assets: (1) Description of each major category. (2) The number of physical units added and withdrawn from the records during the year and the end-of-year number of physical units for each type of heritage asset. (3) Description of the methods of acquisition and withdrawal of heritage assets. (4) Condition of the assets unless it is already reported in a note to the financial statements in which case a reference to the note should suffice. (5) A reference to a note to the financial statements if deferred maintenance is reported for the assets.			X	
8	National Defense PP&E	68	<a href="#">Chapter 11</a>	(1) A description of major types of National Defense PP&E by the holding entity and values assigned under the valuation method. (2) The value of National Defense PP&E added and withdrawn during the year, the changes in value resulting from revaluations of assets held to latest acquisition cost, and end-of-year value for each major type of property using the entity's valuation method. (3) A description of the methods of acquisition and withdrawal of National Defense PP&E at the major program or category level.			X	

Table 14-8

**DoD Financial Management Regulation****Volume 6B, Chapter 14****★ October 2000**

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
SFFAS	Subject Area	SFFAS Para. No.	DoD FMR Volume 6B Chapter	Required Disclosure	Fin. Stmt.	Foot-note	RSSI	RSI & OAI
8	National Defense PP&E (Continued)	68	<a href="#">Chapter 11</a>	(4) Condition of the assets unless it is already reported in a note to the financial statements; if this is the case, a reference to the note should suffice. (5) A reference to the applicable note to the financial statements if deferred maintenance is reported for the assets.			X	
8	Stewardship Land	81	<a href="#">Chapter 11</a>	Report the following for Stewardship Land: (1) The number of physical units of stewardship land by category of major use, broken down within the category by principal holding agency. (2) Where parcels have more than one use, the predominant use should be considered the major use. Where there is no predominant use, a description of the multiple uses should be presented. (3) Acquisitions, withdrawals, and ending balance should be shown by major categories of use and methods of acquisition and withdrawal identified. (4) The condition of the stewardship land, unless it is already reported in a note to the financial statement; if this is the case, a reference to the note should suffice. (5) A reference to the note to the financial statements if deferred maintenance is reported for the assets.			X	

Table 14-8 (Continued)

**DoD Financial Management Regulation****Volume 6B, Chapter 14****★ October 2000**

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
SFFAS	Subject Area	SFFAS Para. No.	DoD FMR Volume 6B Chapter	Required Disclosure	Fin. Stmt.	Foot-note	RSSI	RSI & OAI
8	Non-Federal Physical Property	87	<a href="#">Chapter 11</a>	Report the following for Non-Federal Physical Property: (1) Annual investment, including a description of federally owned physical property transferred to state and local governments. Reporting should be for the year ended, as well as for each of the 4 years preceding. (2) Reporting should be at a meaningful category or level. (3) If expense data are unavailable, outlay data are permissible for a transition period. If neither expense nor outlay data are available for the 5 years, entities need only report expense data for the current year. At the end of 5 years, entities are to report expense data. (4) Reporting should include a description of major programs involving federal investments in nonfederal physical property including a description of programs or policies under which noncash assets are transferred to state and local governments.			X	
8	Human Capital	94	<a href="#">Chapter 11</a>	Report the following for Human Capital: (1) Annual investment made in the year ended as well as in each of the 4 preceding years. (2) If expense data are unavailable, outlay data are permissible for a transition period. If neither expense nor outlay data are available for the 5 years, entities need only report expense data for the current year. At the end of 5 years, entities should report expense data.			X	

Table 14-8 (Continued)



**DoD Financial Management Regulation****Volume 6B, Chapter 14****★ October 2000**

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
SFFAS	Subject Area	SFFAS Para. No.	DoD FMR Volume 6B Chapter	Required Disclosure	Fin. Stmt.	Foot-note	RSSI	RSI & OAI
8	Human Capital (Continued)	94	<a href="#">Chapter 11</a>	(3) A narrative description of major education and training programs considered federal investments in human capital should be included.			X	
8	Research and Development	100	<a href="#">Chapter 11</a>	Report the following for Research and Development: (1) Annual investment made in the year ended, as well as in each of the 4 preceding years. (2) If expense data are unavailable, outlay data are permissible. If neither expense nor outlay data are available, outlay data are permissible for a transition period. If neither expense nor outlay data are available for the 5 years, entities need only report expense data for the current year. At the end of 5 years, entities should report expense data. (3) A narrative description of major research and development programs should be included.			X	

Table 14-8 (Continued)

This page intentionally left blank.

## Appendix F. Financial Improvement Initiative Checklist

The following is a checklist included in the Financial Improvement Initiative Business Rules Memo.

CHECKLIST	
<p>When performing corrective action validation and while preparing the assertion package, please complete the following checklist. Include the completed checklist as an attachment to your assertion letter.</p> <p>This check list is designed to help components prepare for audits by providing the information that is typically needed for financial statement audits. Keep in mind that the list of specific items you will need for an assessment or audit will come from the auditors in the form of a "Prepared By Client (PBC) List."</p> <p>The following steps may begin during the Discovery Phase or Correction Phase to assist those performing the assessment in validating that these steps have been completed.</p>	
<input type="checkbox"/>	1 Identify and document the procedures, processes, and control points for deriving the balance(s) being asserted. Include the systems that are used and the flow of data from field level to departmental level. This can be done in a cycle memorandum or flow chart format. Having this information prepared in advance will be a great tool for you to refer to during the assessment and audit. Also, the auditors will need to document the information so you will already have the information prepared. Be sure to identify all systems that have detail that makes up the balance(s) being asserted as ready for audit.
<input type="checkbox"/>	2 Have all General Ledger transaction detail and supporting information from feeder systems available for all the transactions that make up the balance(s) being asserted. Ensure the total of the detail equals the balance of the line item. This includes all accounting adjustments that have an effect on the ending balance of a line item reported on the financial statements.
<input type="checkbox"/>	3 Consolidate evidential matter that supports the transactions in step 2 or map where the evidential matter is located for easy and expedient retrieval.
<input type="checkbox"/>	4 Prepare a summary of the validation work performed by management Service auditors, internal auditors, or independent public accounting firms to establish audit readiness, if applicable.
<input type="checkbox"/>	5 Complete all the corrective actions in your Mid-Range Financial Improvement Plan for the material deficiencies related to the balance(s) being asserted.
<input type="checkbox"/>	6 Using the information from number 5 above, prepare an explanation of the actions taken to fix previously identified or existing problems and incorporate the explanation in the assertion letter or include as attachment to the letter. Be very specific.
<input type="checkbox"/>	7 Compile organization charts indicating key personnel and their responsibilities and phone lists.
<input type="checkbox"/>	8 For all the systems identified in step 1 above, has there been a Financial Information Security Audit Manual Controls (FISCAM) or Statement of Auditing Standard (SAS) 70/88 audit conducted on the systems?
<input type="checkbox"/>	Yes If yes, provide the date and point of contact.
<input type="checkbox"/>	No

- ☐ 9 For the Systems identified in step 1 that you answered Yes in step 8, obtain a copy of the FISCAM or SAS 70/88 audit report and skip the rest of the steps. For the systems identified in step 1 that you answered No in step 8, proceed to step 10.

**If a FISCAM or SAS 70/88 audit has not been conducted on the system, then the auditors will have to perform alternate procedures on the system. Therefore, the following information will have to be gathered prior to the audit for each system.**

- ☐ 10 Prepare a description of the major hardware and software of the system and interfaces with other systems
- ☐ 11 Describe what type of data the system produces for the financial statements, e.g. accounting transactions
- ☐ 12 Prepare a description of telecommunications devices and networks used with the system.
- ☐ 13 Obtain a copy of the most recent certifications and accreditations of the system.
- ☐ 14 Identify the system location(s) and end user locations.
- ☐ 15 Identify the location(s) of system documentation.
- ☐ 16 Identify the type, dollar value, and number of transactions processed in the system in a month and in a year.
- ☐ 17 Obtain a list of all system users - this should be a print out that shows the user and level of access.
- ☐ 18 Inquire if there are any ongoing or planned system reviews - if there are, determine when the reviews will be complete.

# **Office of the Under Secretary of Defense (Comptroller) (OUSD(C))**

---



---

## **How to Prepare for an Audit of Inventory and Operating Materials and Supplies (OM&S)**

### **Final Examination**

**Student Name:** \_\_\_\_\_

Prepared by:  
Science Applications International Corporation  
Southbridge Hotel and Conference Center  
14 Mechanic Street, Room C-3100  
Southbridge, MA 01550-2570



Products or brand names mentioned in the text of this guide  
are trademarks or registered trademarks of their respective holders

---

## Final Examination

---

**Directions**

This is an open-book final examination covering subject matter taught in the How to Prepare for an Audit of Inventory and OM&S course. It will assess your knowledge of the general subject matter and requirements for preparing for an audit of inventory and OM&S. This final examination consists of questions that are multiple choice and fill in the blank. Write in or circle the correct answer to the questions.

---

**Time Allocation**

The time allocated to this examination is 40 minutes: 30 minutes for the exercise and 10 minutes for the critique.

Number	Question
1	What are the three categories of OM&S? More than one answer may apply.  a. Held for Use  b. Held for Repair  c. Held for Sale  d. Held Pending Transfer
2	What is the preferred method of inventory valuation?  a. Latest Acquisition Cost (LAC)  b. First-in, First-out (FIFO)  c. Moving Average Cost (MAC)  d. Last-in, First-out (LIFO)
3	When an audit is conducted, what is the preferred result?  a. Adverse Opinion  b. Qualified Opinion  c. Disclaimer of Opinion  d. Unqualified Opinion

Number	Question
4	<p>What act requires that each financial statement be audited in accordance with Generally Accepted Government Auditing Standards (GAGAS)?</p> <ul style="list-style-type: none"><li>a. Federal Managers Financial Integrity Act</li><li>b. Government Performance and Results Act</li><li>c. Chief Financial Officers Act</li><li>d. OMB Circular A-123 and Appendix A</li></ul>
5	<p>List the five broad categories of assertions that are defined in the American Institute of Professional Standards, Section 326, Evidential Matter.</p> <hr/> <hr/> <hr/> <hr/> <hr/>
6	<p>What publication requires that adequate documentation be maintained for effective audit trails?</p> <ul style="list-style-type: none"><li>a. OMB Bulletin 01-02</li><li>b. DoDFMR, Volume 1, Chapter 9</li><li>c. DoDFMR, Volume 4, Chapter 6</li><li>d. Chief Financial Officers Act</li></ul>
7	<p>Which form is used by the DoD as a material inspection and receiving report?</p> <ul style="list-style-type: none"><li>a. DD Form 1155</li><li>b. DD Form 250</li><li>c. SF 1449</li><li>d. DD Form 1348-1A</li></ul>



Number	Question
8	<p>The _____ provides the Uniform Chart of Accounts and technical guidance that is used in standardized federal agency accounting.</p> <ul style="list-style-type: none"><li>a. OMB Bulletin 01-02</li><li>b. United States Government Standard General Ledger (USSGL)</li><li>c. Federal Managers Financial Integrity Act</li><li>d. DoD Directives</li></ul>
9	<p>What publications provide information on records retention in the DoD?</p> <ul style="list-style-type: none"><li>a. National Archives and Records Administration</li><li>b. DoDFMR, Volume 1, Chapter 9</li><li>c. DoDFMR, Volume 4, Chapter 6</li><li>d. Both a and b</li></ul>
10	<p>What is the name of the software that is composed of three different technologies: imaging, electronic foldering, and workflow?</p> <ul style="list-style-type: none"><li>a. EDA</li><li>b. EDM</li><li>c. OLRV</li><li>d. WAWF</li></ul>
11	<p>What information is contained on a Material Release Order (MRO)?</p> <ul style="list-style-type: none"><li>a. Routing Identification Number</li><li>b. Condition Code for the Item</li><li>c. National Stock Number (NSN)</li><li>d. All of the above</li></ul>

Number	Question
12	<p>What is the name of the entity that performs financial statement audits within the Department?</p> <p>a. DoD OIG</p> <p>b. Army Audit Agency</p> <p>c. Navel Auditing Service</p> <p>d. Air Force Audit Service</p>
13	<p>The _____ is/are designated to ensure that the Department achieves an unqualified audit opinion.</p> <p>a. Chief Financial Officers Act</p> <p>b. Financial Improvement Initiative Business Rules</p> <p>c. Government Performance and Results Act</p> <p>d. The DoD Performance and Accountability Report</p>
14	<p>What are the phases of the GAO/PCIE FAM?</p> <p>_____</p> <p>_____</p> <p>_____</p>
15	<p>What are the five phases of the Financial Improvement Initiative Business Rules?</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p>